Minnesota River at flood stage, Port Cargill yards, April 1943.

gineers was monitoring the towboat contract. As one of the historians of the Savage effort put it, "We guess the Army and Navy really hit it off together when they're at home, but connubial bliss is not considered outside, and we found out that neither one wanted to allow any of the other spouse's material to be stored on his lot." It was imperative to get the first AOGs launched as soon as possible.

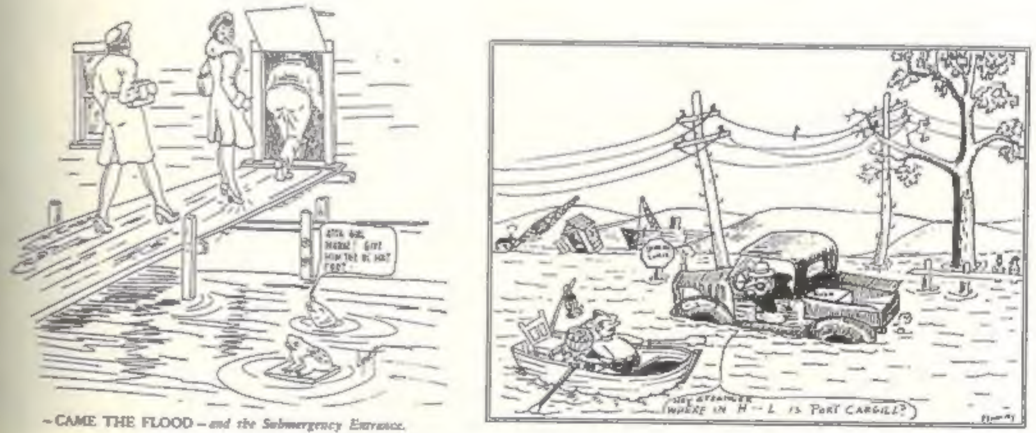
The issue was taken out of mortal hands, for Mother Nature intruded with a huge flood of the Minnesota River. John Jr. wrote his father, on April l, 1943: "The flood unfortunately is paralyzing everything. The water this morning was within about 2 feet of where we will have to stop work. The actual flood stage is a little more than 12 feet and we figure that at about 14 feet the boats will be entirely surrounded by water. However, it will have to go to 15 feet before we reach the floor of the office building. . . . The Army engineers are quite discouraging and say the flood actually is worse than they thought a day or two ago." Four days later, John Jr. wrote again: "As of this morning the water was 22 inches below the office floor and we finally had to let water into all the boats to keep them from floating away . . . the entire yard is submerged except for the panel shop

and some of the railroad tracks. . . . Nevertheless, the welding, wiring and plumbing work is continuing the same as usual."

Floods eventually recede. On Thursday, May 6, 1943, the first of Cargill's AOGs—the *Agawam*—was launched. The launching was to be sideways, and Cargill shipyard officials awaited the event with concern. "It doesn't require a great imagination," wrote Alan Clegg, one of the Savage historians, "to construe the results of an error or two which would result in that great hulk slewing in an oblique angle to the ways, capsizing and snuggling down on her side on dry land, or going over the ends of ways into the pool and crushing in her bottom." Cargill was using its same set of ways originally used in Albany, "considered very crude by people 'in the business,'" wrote the historian.

The *Agawam* in fact slid gracefully down into the water, amid great cheers from among the shipyard employees all assembled. On May 15, the second ship, the *Elkhorn* was launched. On July 24, the *Kishwaukee*, the third of the AOGs slid down the ways, and the yards lost their cramped appearance. Additional fitting had to be done on the three vessels before they could be sent down the river, but this could then be done aboard ship. The navy now followed through on its desire to give Cargill additional contracts. This time it was for 12 AOGs, each to cost some $1,675,000, with a provision for a fixed fee of 3 percent for the Company.

The navy had urged that the launchings not be made major events. Cargill officials followed this request but brought themselves some singular goodwill by their choice of people to launch the ships. For the fourth launching, that of the *Genesee*, Mrs. Helen Rae Clark, a farm wife from Norwalk, Iowa, did the honors. The *Minneapolis Tribune* commented:



The Port Cargill flood, April 1943, in cartoons.

"A Tanker for the Navy Nears the Launching Stage at Savage Shipbuilding Yards," Minneapolis Sunday Tribune, *November 11, 1943.*

By all the ordinary standards of selection, she is probably one of the most unassuming and obscure of ship sponsors. But listen; Mrs. Clark manages a 120-acre dairy farm while all the other grown-up Clarks are preoccupied, in civilian or military capacity, with the war effort. In addition she is raising four young Clarks and has opened her home to an orphan boy and to two children whose dad is serving in the Army. . . . There are uncounted women who are carrying on unselfishly and competently in the necessary tasks and duties of the farm home. There will never be enough ship-launchings, we fear, to honor all of them.

For the *Kishwaukee* launching in July, the sponsor was another farm wife, Mrs. John Shipp of Hay Springs, Nebraska. Mrs. Shipp had three navy sons, with service records dating back prior to Pearl Harbor. One had been on Guam and was a Japanese prisoner of war.

When the Company launched its first towboat—the *Bataan*—in early September 1943, it received almost the ultimate accolade with a three-page story in *Time* magazine, "The Farmer Goes to Sea." The article began with *Time*'s usual jaunty prose:

Farmers in the grain-growing north know Cargill, Inc. as one of the world's biggest, most audacious grain companies with a hankering as big as its elevators for taking on unconventional jobs, rushing them through by unconventional tricks. But when Cargill began buying farm and meadowland along the tree-shaded Minnesota River near Savage, Minn. little over a year ago, even Cargill-wise farmers hooted at the fantastic reason: Cargill was going to set up a shipyard to build ocean-going vessels. They had some excuse for hooting. Savage is 14 water miles from the Mississippi. For most of those 14 winding miles, the Minnesota was barely 3½ ft. deep.

The editors continued: "Last week, folks along the Minnesota were too busy to laugh. Into the Minnesota at new Port Cargill they triumphantly plopped a 180-ft. Army towboat, the *Bataan* (cost $1,000,000), moored it snugly alongside three 300-ft. ocean tankers they have launched in the last four months, [and] are now fitting out. Without wasting a moment, they jumped to work on the first of a new batch of Navy tankers Cargill contracted to build a fortnight ago."

The *Time* story would have been such a grand, crowning recognition for Cargill had not the editors also put a small footnote after the word "audacious." Here they wrote again of the 1937 corn contract, stating that Cargill "squeezed short sellers so tightly" that the CBOT forced Cargill's expulsion from the Board "for its price manipulations in the corner fight." This addendum outraged John Jr., who wrote Frank Neilson the next day:

The launching of the Nemasket, *1943 (reprinted with permission of the* Star Tribune *[Minneapolis/St. Paul]).*

"I think we got pretty rough treatment. The article was scandalously inaccurate . . . and the foot-note was quite unnecessary. I took it up with Dorsey [a Cargill lawyer] but he said there was nothing we could do about it." What could have been a moment of great acclaim for the Company and for John Jr. was overshadowed by his wounded pride. Even a glowing comment about Port Cargill by movie star Mickey Rooney, at a War Bond rally in Minneapolis Auditorium later that month, did not make up for *Time*'s "slur."[15]

Completing the Government's Ships

The first of the Cargill-built AOGs, the USS *Agawam*, was launched, fitted and ready to navigate the Mississippi River to New Orleans in early November 1943. This vessel was not just a 40-foot towboat with its own power, like the company towboat *Cartasca*—this was a 310-foot vessel that did not yet have its own power. On November 4, 1943, the *Agawam* was moved into the Minnesota River from its berth. A log kept by George Van Den Houten, the foreman in the carpenter shop, chronicled that uneasy day:

> The hull was pushed from slip by small tug and straightened out in river by river towboat *Demopolis*. A line run from mid section to west shore was used for the hull to pivot [and] swing stern upstream as it moved into river. The *Demopolis* was too slow in moving against portside of hull near stern to swing stern upstream. The hull thus was caught by current as it came into river and drifted until it rested crosswise of river, with bow against east bank of slip. A bow line to west shore of slip was used to pull bow of hull from bank, while *Demopolis* pushed stern upstream . . . mooring of the hull at the derrick dock was completed at 6:30 p.m., 2½ hours after moving operation was started.

Ahead was the first trip of an AOG down the Minnesota River. On Friday, November 5, the *Agawam* began the voyage, propelled by the towboat *Demopolis*. The towboat was so low that the pilot could not see forward around the stern of the *Agawam*. Other riverboat pilots on the *Agawam* bridge communicated with the pilot of the *Demopolis* by telephone and loudspeakers, instructing him which way to steer to keep the big ship in the channel. In addition, there were men on shore at strategic points with cables and heavy trucks, ready to give whatever assistance might be necessary.

There are a number of twists and turns in the Minnesota River, but the *Agawam* was snaked through without a problem. The *St. Paul Pioneer Press*, earlier so incensed about the presumption of building a shipyard up the Minnesota River, reported on the event in good grace: "A sleek, gray ship, whose cavernous insides may carry fuel for planes to blast Germany or Japan, arrived in St. Paul Friday afternoon after a trip down the Min-

Launching a Defense Plant Corporation towboat, c. 1944.

Edna MacMillan (Mrs. John H. MacMillan, Sr.) sponsors the launching of the Chehalis, *April 1944; Seaman Second Class Frank E. Junkin represents Chehalis, Washington.*

nesota and Mississippi rivers, which failed to justify suspicions that the craft could not navigate the two streams." There was a huge crowd of Twin Cities residents along the shores as the vessel passed through the southern environs of Minneapolis and St. Paul. It only took an hour for the vessel combination to travel from Port Cargill to a point safely past the Mendota bridge.

The *Agawam's* trip down the Mississippi was not quite as uneventful. John Jr. wrote his son on the subsequent problems: "The *Agawam* is almost in New Orleans, although the Inland Waterways Corporation did ground her once or twice on the way down and the Navy is very fearful that some damage was done to the rudders or propeller. The towboat '*Huck Finn*' was handling her at the time." But there was little damage, and the *Agawam* was turned over to the Navy as a completed project.

Over the succeeding months of World War II, Cargill sent 17 more AOGs down the Minnesota and Mississippi, most often without event (there were occasional momentary groundings but no real problems). The navy continued to name the vessels after various United States rivers, most of them with Indian names (for example, *Chewaucan*, *Mattabesset*, *Natchaug*, *Noxubee* and *Wacissa*). The four towboats built for the army under DPC auspices also were delivered as planned; these were named after areas in the Pacific Theater of Operations—the *Bataan*, the *Coral Sea*, the *Milne Bay* and the *Bou Arada*. Launchings of these various ships were accomplished in the same manner as the earlier ones, with service wives and mothers and Company people as sponsors. In a well-received event in March 1944, Edna MacMillan launched the AOG vessel *Chehalis*.

The shipyard workers were anxious to hear how the first of the AOGs did in actual sea trials, and in a special memorandum to them from the U.S. Navy Supervisor of Shipbuilding in early April 1944, they learned about both the *Agawam* and the *Elkhorn*. One of the crew of the former reported: "Aside from being able to fry eggs on deck, everything is 'jake.' " The *Agawam* chief engineer reported: "This ship is o.k.—it'll maneuver better than any I've ever seen . . . but damn it, you've never seen anything roll like this ship will over nothing—especially when we're light." The crew of the *Elkhorn* reported: "The ship has all new war paint and looks like a million. . . . People like you in Minneapolis are the symbols of what we are really fighting for and, I must add, worth fighting for." It seemed to make all of the difficulties worthwhile.

At a 1969 reunion of the navy men who had crewed the *Chehalis* during the war, one of the men reminisced about that first trip down the Mississippi, where "we'd (sometimes) hear the hull scrape against the bottom of the banks . . . and at night we tied it up to trees along the riverbank." Its destination was the Pacific, and the sailors recalled fondly their vessel that "took to the water like a duck . . . a comparatively smooth-riding craft."

The Agawam *passes under St. Paul's Mendota Bridge, November 1943.*

One of the AOGs at dockside, St. Paul.

The AOGs' wartime camouflage.

The U.S.S. Tombigbee *in Antarctica, 1963.*

Austen Cargill chairs a Works Manager dinner for Port Cargill leadmen and foremen, August 1943.

Though menaced by kamikaze planes toward the end of the war, the *Chehalis* made it through, only to catch fire and sink off Tutnila, American Samoa, in 1949.

Great adventures and tragedies were common features in the lives of the 18 ships. Several stayed under military command long enough to participate in the Korean War; the *Kishwaukee* even survived the Vietnam War. *Namakagon* was transferred to New Zealand in 1962, her hull strengthened for polar operations in the Antarctic. *Nespelen* and *Tombigbee* also served in Antarctica in 1963 for the United States exercise "Operation Deep Freeze." *Chestatee* became a World War II casualty, striking a mine in the straits south of Balabac Island, in Philippine waters. Eight others in addition to *Namakagon* finally sailed under foreign flags (with new names); three went to Taiwan, two to Greece and one each to Colombia, Chile and Canada. (The record for each is set out in the Appendix to this chapter.)

The shipyard continued to be a focus for Cargill all through the rest of the war. In total employees, it was the dominant part of the business. In terms of profitability, with the small fixed-fee amount the Company received for each vessel, the results were very modest. The Company re-

ported a loss of $477,000 on Port Cargill in 1942, made a profit of $140,000 in 1943 and $147,000 in 1944, then lost another $40,000 in 1945. This was in the same period when the Grain Department had made $3.4 million in 1942, $3.1 million in 1943, $766,000 in 1944 and $2.6 million in 1945. John Jr. had told the Company's employees in September 1943 that operation of the shipyard was going to involve considerable sacrifice, including low profitability. He continued: "The reward which we obtain for this effort lies solely in the feeling of pride we have in making sacrifices for the war effort. Whether these sacrifices are worthwhile lies wholly in your hands." When, on January 2, 1945, Cargill was awarded its first Army-Navy "E" for production excellence, Austen Cargill reiterated the same thought in accepting the flag accompanying the award (a second "E" came that summer, adding a star on the flag).

Awards like this enhanced the already high morale of the Cargill employees. The Company had enjoyed excellent labor relations through the whole war period; there had been just two short strikes at Port Cargill, both involving internal leadership and jurisdictional issues within the union. Cargill employees had performed superbly in their share of the war effort.[16]

A Surprise at Green Bay

Another railroad disappointment also occurred in this period, involving Green Bay, Wisconsin. Cargill had had a grain trade presence there since 1878. W. W. Cargill had then persuaded the two railroads serving Green Bay, the Green Bay & Western and the Chicago and North Western, to share in the cost of constructing a terminal elevator there. The original Green Bay terminal had burned in 1916. This was rebuilt by the Green Bay & Western and again leased to Cargill (as terminal A). A second terminal (B), which the Company leased from the Chicago and North Western Railroad, had also been constructed. The capacity of A was 645,000 bushels, and B could handle 400,000 bushels.

Terminal storage space was at a premium in the early part of the war. In April 1942, the Green Bay & Western abruptly sent notice that when the lease on the terminal expired on June 30, it was going take its elevator facilities back. Ed Grimes wrote the president of the railroad, Homer E. McGee, noting the substantial business that had been done with the railroad over many years; he decried the fact that Cargill "should be subjected to such peremptory treatment in view of the longstanding association."

The railroad president rejected this reasoning and wrote: "With us it is a matter of business. We have plans which we think will produce more revenue." There was no changing his mind. Cargill lost the terminal that June (and its manager, who stayed with the terminal).

Cargill's other Green Bay terminal was not in good physical shape and was standing idle at the time. Indeed, the U.S. Coast Guard wrote in early May 1942, worrying that the building, directly on the shore of the main channel, "leans three to seven feet out over the water with imminent possibility of collapse." The officer contacting the Company, mirroring the tension of that early war period, noted that the area "is frequented by hobos . . . who might be inclined to engage in subversive or saboteur activities." Later, the railroad precluded Cargill from using the dangerous side, and its usable capacity dropped to 256,000 bushels.

Now a hasty effort was needed to try to regain some comparable terminal space, not necessarily at Green Bay. Out of this small crisis, the Company was able, on short notice, to find alternative property—an elevator in Minneapolis owned by Continental Grain Company, with capacity of 1.1 million bushels. The elevator had been managed by Robert C. Woodworth, a vice president of that firm. It was a relatively new elevator; the initial building had been constructed in 1922 and additions made in 1929. The purchase solved the Green Bay problem quite well. Beyond this, it brought a collateral benefit of increasing value, inasmuch as Woodworth chose to stay with Cargill as an employee. Soon he was taking a major role in Cargill's public relations efforts.[17]

An Old Enemy

The Corn Case presumably had been settled in March 1940 by the CEA's guilty verdict for John Jr. and Cargill Grain Company of Illinois, with both barred from trading for one year. But it wasn't over. Indeed, now the situation was to take an unexpected turn. On October 25, 1940, the Farmers National Grain Corporation entered a suit in United States District Court, charging that it had suffered large losses in its market operations in 1937 as a result of illegal manipulation of prices by the Cargill interests and asking treble damages. Farmers National had been in the process of liquidation since shortly after the Corn Case, all of its assets having been turned over to the Farm Credit Administration. The cooperative had had a stormy record since its founding back in the Farm Board days in the 1930s and was heavily in debt. The actual loss alleged from the Corn Case was listed at $630,000, and with court costs, attorneys' fees and interest at 6 percent, the total damages claimed approached $2 million.

Cargill had known of the possibility of the suit since late August 1940, when Howard Ellis contacted the Company, stating that he represented Farmers National and that he intended to enter the suit. John Jr. worried about possible reactions from the banking community. John Peterson did talk privately with Hugo Scheuermann at the Chase Bank, who advised that if any of the banks in the syndicate were uneasy about the suit, they

should be taken out of the group. Otherwise, "he isn't particularly disturbed."

Still, it must have been an unpleasant revelation to John Jr. and his colleagues when they discovered that the lawyer handling the suit was Howard Ellis. The Chicago Board of Trade had retained him all through the Corn Case; it was Ellis who determined the CBOT strategy even before the final days of the September 1937 contract and who had prosecuted the case for the Exchange. If anyone knew of all of the private strategies and secret maneuverings, the sensitive spots for the CBOT to guard against—in other words, all of the other side's confidential, privileged information—it was Howard Ellis. He was privy to all of the CBOT's links with the "shorts" in the case. One was, of course, Daniel Rice. The other dominant short was Farmers National. By today's legal standards of ethics, all of this would likely be a conflict of interest.

That Cargill did not immediately object about Ellis probably can be attributed to one significant fact: Irving Goldsmith, Cargill's trial lawyer and chief strategist in the Corn Case, once had been legal counsel for Farmers National before Cargill hired him away. Goldsmith, now ill (he died in July 1941), was no longer Cargill's counsel; Clark R. Fletcher, the senior partner of the law firm of Fletcher, Dorsey, Barker, Coleman and Barber, took over the case for the Company. Irving Goldsmith, too, had privileged information about Farmers National. Indeed, in the Cargill files were some Farmers National board minutes, put there by Irving Goldsmith. It would have been sophistry to have claimed conflict of interest for Ellis. Nevertheless, having Ellis as the opposing lawyer was threatening.

Cargill uniformly had ignored threats from parties who alleged they had been injured by its actions in the Corn Case. The Farmers National case was a different order of magnitude, however—much more was at stake in terms of possible damages, and the precedent for other suits that might follow made the total risk very substantial.

All through the year 1941 the team of Cargill lawyers pored over the old Corn Case, took depositions from those they wanted as defense witnesses and tried to reconstruct the happenings of that fall of 1937, now four years back. The Farmers National files were in disarray, given its near-bankrupt status, and many of its trading records created during those frenzied days had long since been destroyed. It was a nightmare to try once again to reconstruct the case. By the beginning of the United States entry into the war after Pearl Harbor, the case was nowhere near trial but had consumed enormous amounts of management time and lawyers' involvement.

When the Navy Department contacted Cargill about the potential shipbuilding program, in that first week of January 1942, the specter of trying to conduct a demanding wartime effort in the face of the drains of the Farmers National case troubled John Jr. very much, and he now made an unorthodox proposal to Weston Grimes.

Grimes wired Cargill MacMillan: "Mac. Jr. . . . feels no use even talking to Navy unless they or we can in some way postpone F N case for duration and wants me talk to Navy re this idea." The implied quid pro quo in this troubled Grimes: "I just don't know about propriety of such action . . . it was of course John's idea that any postponement wouldn't stick if we didn't consummate a big contract with Navy . . . it may be that Agriculture should be talked to re this rather than Navy but again I don't know how far I can go in intimating we have been drafted into Navy production." He concluded: "Will do anything you suggest is proper." The Company's outside counsel, however, opposed any such representation to the navy, and the case proceeded at its time-consuming pace, adding further management involvement.[18]

Settling with Farmers National

Preparation for the Farmers National suit against Cargill dragged on all through the year 1942, crowding further the already full agenda of that critical period. Memories had dimmed considerably about the exact sequence of events in September 1937. The brokerage houses did not keep most records for any length of time, and the memories of the pit brokers working in that accelerated hothouse environment inevitably were quite short-term. Farmers National's government receivership had not helped their recordkeeping, either. At one point, Cargill lawyers wanted a copy of a fundamental IRS form (No. 1099), but Farmers National officers could not even produce this. Even the Chicago Board of Trade seemed not to have kept some of the key records. John Jr. wired his brother in late 1941: "I spent half hour with ——— [I have omitted the name] but we are going to get little or no help there. His records were very recently destroyed, illegally of course."

Leavitt Barker, one of the senior lawyers with the Cargill trial team, wrote Douglas Bagnell, the head of the CEA's division of investigations: "We have encountered repeated instances in which . . . all or a portion of the records required by law to be kept were not available because of loss or destruction, or because such records were never made. In the case of the Pit Brokers . . . the impression seemed to prevail that the provisions of the law and the regulations were not applicable to them." Barker urged Bagnell to intervene "to correct any existing misapprehension as to the scope of the law."

Bad luck plagued the Cargill legal team, too. In late 1941, Leavitt Barker was seriously injured in an automobile accident. Clark Fletcher, the head of Cargill's legal team, wrote: "This accident will of course have a serious effect on preparation for trial of the Cargill case." Fletcher then took over most of Barker's duties personally.

By late 1942, Fletcher had painstakingly assembled a mountain of materials that seemed to build Cargill's defense well. He elaborated his strategy in a long series of memoranda in late November and early December 1942. Judge William J. Campbell, before whom the case was to be tried, had suggested in mid-December 1942 that the Company waive a jury trial and agree upon a Special Master before whom the case would be tried. Cargill lawyers presented this suggestion to the board of directors on December 30, 1942, advising the board that the Company had a constitutional right to trial by jury but that "while the issues were comparatively simple, the fact situation was so complex, complicated as it is by the special terminology of the grain trade, that it is quite probable that the average jury will have difficulty in understanding the case fully." The board balked, however, and unanimously recommended to the lawyers "that the Company will not waive a jury trial."

But it was not to be. As a final disastrous event in the star-crossed case, in late January 1943, Clark Fletcher himself suddenly died. In the first week of February, John Jr. and his colleagues decided to settle out of court with Farmers National. In negotiations with Ellis and his group of lawyers, kept confidential at Cargill's insistence, the Company agreed to settle by paying the sum of $137,500. As a condition of the settlement, Farmers National agreed not to give any publicity to the settlement.

This secrecy seemed a legitimate request by Cargill, inasmuch as its well-prepared case had never been made a matter of public record, and further suits by other shorts had always been a concern. John Jr. wrote Ted Young that day: "I did not want to settle and I am ashamed of the fact that we did, but the prospect of having to educate another set of lawyers was just more than I could stand, especially as it looks as though Henry Morganthau [Secretary of the Treasury] is going to pay 90% of the settlement cost." (The Company's earnings at this point had put it in that percentage level with the excess profits tax of the federal government.) Young continued with a prescient observation that John Jr. would remember later, in another bout with Dan Rice: "What will happen when some astute 'long' acquires a large 'long' line of futures contracts as a hedge against *actual* (as distinguished from anticipated) customer demands, and a 'tight' situation develops, will be interesting to see. Probably, even then, the 'long' will be made to suffer. . . . The motives of the 'long' will be under very close and cynical scrutiny."[19]

Daniel Rice and Rye Marketing

In the grain business in this period, traders generally found little excitement in trading rye. The harvested acreage of rye in the late 1930s and early 1940s was only a little larger than in Civil War days. For a few years after

World War I the acreage under rye did expand, with the United States producing its first 100-million-bushel crop. But around the time of Pearl Harbor production was less than half of that, and the price per bushel had stayed low all through this period, too. Some of the rye output was used as a food, rye flour being mixed with wheat flour for the American version of "rye bread." ("Black bread" in Europe had a much larger rye content.) Some additional percentage of the crop was used in distilling industrial alcohol and rye whiskey, and lesser grades of rye were used as livestock feed. Most of North America's production was in the Northern Plains states and in Canada; Europe also had a substantial harvest. By usual standards, trading rye was not a central concern in the feed industry.

Therefore, it was all the more surprising that one of the great grain-trading battles that occurred during World War II involved rye and pitted in opposition those old adversaries, John MacMillan, Jr., and Daniel Rice. Sometime in 1941, just before the war started, Cargill began buying much more rye than ever before. In May 1941, the rye inventory in the Grain Division stood at 6.5 million bushels; in December 1941, this had almost doubled, to 13.4 million bushels. The reasons for this decision, most likely that of Julius Hendel and Erv Kelm (the chief trader of rye), are not completely clear from remaining records. Julius Hendel, following his instincts, sensed that rye had price appreciation potential. John Jr. seconded this belief, explaining his own rationale to a Merrill Lynch executive in a wire in November, 1942: "As we see it, a speculation in rye is nothing but one on the termination date of the war. We are all agreed that with advent of peace rye in Europe will sell even money or a premium over wheat."

Another participant in this wartime rye drama had the same instincts. Charles W. Metcalf, executive vice president of General Foods Corporation and its senior trader (he himself a member on the Chicago Board of Trade), also began to buy rye for General Foods. That company had been experimenting with technology for using rye as a raw material for making syrup. The industry had been skeptical of this; corn was a better raw material, yielding a better quality of starch for conversion into syrup, at a lesser cost. At best, General Foods would doubtless use only a small amount of rye for this venture.

Yet Metcalf went into the rye market in a huge way in 1942, just after the beginning of the war, and on into 1943. General Foods holdings of cash rye kept rising, and Metcalf also brought the company to a net long position in rye futures of 2 million bushels, the maximum speculative position that it could legally attain (the Commodity Exchange Administration said of General Foods buying: "General Foods was not a user of rye and had no need for it. Its holdings of rye and rye futures were speculative, not being offset by sales of or needs for rye"). Metcalf continued to use his long positions on through 1943 as a device for acquiring physical product.

By September 1943, General Foods had acquired 5,350,000 bushels of rye futures and actual bushels of grain, or 66 percent of all deliverable rye in Chicago. As its buying continued in October and November, this amount began to rise further. Finally, on November 29, 1943, the Business Conduct Committee of the Chicago Board of Trade, assessing the "commanding position" of General Foods in rye, called Metcalf before the committee. The committee ruled that his holdings "might tend to create a corner and be in a position to dominate price movements." At the meeting, Metcalf agreed to curtail his purchases. But a few weeks later, on January 4, 1944, he abruptly changed his mind and notified the committee that he would no longer be bound by the agreement.

At this point, Daniel Rice entered the picture. Metcalf employed Rice and his company to merchandise the General Foods rye. Rice had been a short in rye up to this point but then joined with Metcalf in becoming a substantial long. He too began to convert his long futures contracts at the CBOT to actual grain holdings and did so too in Winnipeg, where rye also was traded. During this same period, Rice had been given authority by 23 of his other customers unilaterally to conduct their trading. There were additional purchases of rye futures and rye products for this group, too. At the peak of General Foods buying, their holdings were estimated by *Business Week* at some 12 million bushels, roughly one-third of the entire crop of that year. *Business Week* titled its article "Mystery in Rye," a testimony to the perplexity that the grain trade felt about the huge General Foods purchases. John Peterson warned John Sr. on February 8, 1944: "It looks to me like they have a first rate 'corner' and the good Lord help them if somebody should decide to sue them."

Rye trading on the CBOT was a "notorious center for speculative abuse," noted Jerry W. Markham in his book *History of Commodity Futures Trading and Its Regulation*. "The market was controlled by a small group of clubby traders, and it was said 'one had to be of the right religion to trade rye.' The rye crop was small, and the market was, therefore, susceptible to manipulation." Daniel Rice and many of his colleagues were Catholic; Philip Sayles called them "the Irish Village."

There had to be shorts, of course, to take the opposite side of the Metcalf/Rice long futures. Inasmuch as the latter desired delivery of physical product, the shorts had to produce actual rye and deliver it in Chicago. Cargill was by far the dominant short—most of the physical rye being delivered in Chicago came from Cargill. Could Cargill continue to supply physical product to these seemingly insatiable groups of longs?

As the Metcalf/Rice holdings of rye and rye futures continued to build up in those first months of 1944, the answer to this question became increasingly important. During the first five months of 1944, Metcalf began to trade in rye and rye futures for his own account, for his wife, his daughter and one other person. Metcalf did not notify the CEA about these new positions.

The May 1944 rye futures contract proved to be the climax. The events incidental to this contract later convinced the CEA officials that Metcalf and Rice had violated the law. The CEA brought a case that alleged the respondents "acted together . . . in concert" to acquire rye and May 1944 rye futures that exceeded deliverable supplies of rye in Chicago, that "they caused the Chicago May 1944 rye futures prices to be artificial, manipulated prices." In sum, the CEA accused Metcalf and Rice (and two of their colleagues included in the case) of attempting a corner.

The corner was not successful, however, for Cargill did indeed provide all of the quantities of rye necessary for delivery under that May 1944 contract, in addition to all of the physical product already delivered to General Foods over many previous months. The ways that Cargill accomplished this once again brought the Company into a bitter confrontation with Daniel Rice.

Rice knew that it was Cargill that had been able, by divers methods, to bring enough rye into Chicago to forestall the apparent Metcalf/Rice strategy of cornering rye at the end of the delivery period of that May 1944 futures contract. Rice felt very strongly about this; indeed, his lawyer, Lee A. Freeman, pushed very hard to make Cargill a party to the CEA proceedings. Freeman testified: "We are of the opinion that Cargill delivered as much as eleven million bushels of rye during the 1943–44 May futures and we believe that that is a fantastic figure . . . who is forcing deliveries? We are accused of having taken delivery and by that action of having manipulated the market, when Cargill made deliveries, extensive deliveries over a period of years . . . for purposes of demoralization and manipulation of the market." Freeman continued with some startlingly belligerent language: "We are accused of having forced somebody. Suppose we received a punch in the nose, are we guilty of being attacked?" When the CEA referee, Jack W. Bain, decried his language, Freeman shot back, "I propose to show that it is."

Rice's anger was understandable, for Cargill had been quite innovative in its efforts to provide rye for delivery. First, there was the issue of bringing Canadian grain into Chicago. From the start, both Rice and the Cargill group had perceived the importance of the Winnipeg market. Rice had gone long in Winnipeg futures and had taken physical delivery of as much as he could obtain there. Cargill, too, had bought extensive amounts of cash grain.

If physical grain was to be brought across the border, the issue of customs duties had to be addressed. A United States law, the Reed-Murray Bill, allowed Canadian grain to be brought into the United States in a bonded warehouse and held there without payment of duty. If the grain

later was delivered for food use, duty then had to be paid. But if held for feed grain, the bill allowed cancellation of the duty. Cargill had contacted the Collector of Customs in Chicago on April 28, 1944, asking if the Company might send a certified check for the possible duty, with the check to be cashed only if the grain was delivered. The Company was importing 3 million bushels, and the duty was 12 cents per bushel. In effect, the Company was asking that this check for $264,000 be held in escrow by the Collector of Customs. Apparently the latter agreed to this.

In a subsequent federal circuit court case (discussed later in this section) the presiding judge faulted Cargill as "a large speculator" who held "a commanding position in short May futures." While both Cargill and Continental had imported a large amount of Canadian rye to Chicago, Continental had "unconditionally paid the duty," amounting to 12 cents per bushel. Cargill, on the other hand, had only "constructively paid the duty" by depositing a certified check with the Customs Department but retaining the right for one year to demonstrate that this rye was used for feed purposes, thus permitting the recovery of the duty deposit. So, while duty money had been provided to the Customs Office, it was "with strings attached."

On the same day that Cargill had written the Collector of Customs, Rice had appeared before the directors of the CBOT, urging them to pass a regulation that would prevent delivery on Chicago futures contracts of rye and other grain imported into the United States unless the import duty had been explicitly paid. Many members of the board favored such a notion, but the legal counsel for the CBOT advised the board that such a provision should be made a matter of federal law rather than CBOT rule.

The circuit court judge in the later case was quite skeptical of the CEA imputation that this effort at the CBOT by Rice was to reduce the amount of deliverable rye. The judge stated that "all were in favor of the proposal" and continued: "We suspect that the opinion expressed in the decision comes nearer representing the view of the Judicial Officer than his finding. . . . That Rice did so is an arbitrary presumption on the part of the Judicial Officer."

Rice also alleged that Cargill was misusing its ability to mix better-quality plump rye with higher-moisture "tuf" rye—that Cargill was needling the rye to take out the plumps, selling those at a premium to customers, and delivering absolutely *at* grade for the accounts of Rice and Metcalf. As part of Cargill's documentation for its possible involvement in the case, the Company lawyers assembled an extensive set of "mixing wires" from the files. These examples elaborated the practice well:

5-5-43—On the rye for Chgo. going to use it in mixing there so want lowest damage, lowest ergot count. Presume bin 1 straight. Don't care what grades tho might help if grades 2 rye.

5-13-43—If moisture on that rye mix goes slightly higher than figures still want to use the 2 rye WHR but if other factors go over the line don't want.

6-20-44—I haven't the remotest idea how we stand on feed rye as everything but the cook's breakfast goes into the mix. Will see if can find out how much duty free rye we have left if that will help.

7-11-44—Yes we could get rid of more duty free rye if we upped the ergot. However that would mean many ergoty cars and involve the Corn Exchange in picking all our rye for ergot which might be a little embarrassing . . . now using 40% of the duty free rye to our mix which makes the ergot content theoretically 5/10 and . . . not running into any trouble . . . might be best to stay as we are. What think.

In effect, Rice accused Cargill of bringing in grain for (as Rice's lawyer put it) "the sole and only purpose of breaking and demoralizing the Chicago rye market by means of a simulated movement of rye into and through Chicago." As *Fortune* magazine put it, in a later major article on grain trading, "The two positions could not have been more opposite: the government charging a corner, the defendant counter-charging a bear raid, or inverse corner."

Rice's caviling about mixing to delivery-grade level was just that, for it was universal and legitimate grain-trading practice. The grades in lots of grain delivered were subject to independent check by government inspectors. It was just good business practice to mix down to grade, particularly so for rye (and also barley), where the premium plumps could command higher prices from specialty buyers.

Before the CEA case even could get started, a raucous story broke out in the public press. Representative Frank B. Keefe of Wisconsin charged in July 1945 that "a group of manipulators . . . with tentacles reaching into Washington . . . has obtained a corner on the rye market" and that they were continuing it "right up to the present hour." He alleged "a national scandal." By late in that month, the Senate Agriculture Committee reportedly was going to look into the matter. Beyond this, Drew Pearson had entered the fray. In his breezy "Washington Merry-Go-Round," he commented on the General Foods side: "General Foods, owned in part by Mrs. Joe Davies, wife of Roosevelt's former Ambassador to Belgium and to Russia . . . after buying 89 per cent of all the deliverable supply of rye, and being stuck with it, then performed a beautiful salesmanship job in persuading the Belgium government to take a million bushels off its hand—paid for by U.S. taxpayers through lend-lease."

Pearson also came close to a public accusation about some members of Congress: "If Congress should ever dig deep enough, it will unearth one of the juiciest stories of riding the grain market the country has heard for a long time, including some of President Truman's close supporters, chiefly Ed Pauley, former treasurer of the Democratic National Commit-

tee. Other Democrats active in rye were Senator 'Pappy' O'Daniel of Texas, Senator 'Happy' Chandler of Kentucky, Attorney General Bob Kenny of California and Senator Scott Lucas of Illinois." As often was true of Pearson's column, the particulars of the Senators' involvement were not detailed.[20]

Despite great concern by Cargill, Rice did not succeed in drawing the Company into the CEA case, nor was Cargill a direct party to the subsequent circuit court case. The Company had prepared assiduously for this possibility, putting together dossiers of relevant wires and statistics (the "mixing wires" an example) and had developed strategies for testimony, if demanded. The lawyers had concluded that by far the best witness would be John Jr. himself, so he prepared carefully, particularly reviewing his own testimony in the Corn Case. However, although Cargill was mentioned at length in both the CEA and the circuit court decisions, no company person was required to testify. On April 28, 1947, the CEA ruled against Metcalf and Rice.

The latter were not ready to concede, however, and immediately took the case to the courts. The circuit court decision, in October 1948, was a landmark. Judge J. Earl Major, who was chief justice of the Seventh Circuit Court, flatly reversed the CEA's decision that Metcalf and Rice had attempted a corner and therefore were guilty on the key allegation of "manipulation." Major stated: "We are favored with numerous definitions of the word . . . perhaps as good as any is one of the definitions which appears in the government's brief, wherein it is defined as 'the creation of an artificial price by planned action, whether by one man or a group of men.' It is rather obvious that this definition does not cover the instant situation . . . there was not any purpose to create an artificial price but to preserve an existing price resulting from natural forces." Major concluded that "self-preservation has oftentimes been referred to as the first law of nature, and we suppose it applies to traders as well as others. We see no reason why the seller respondents as well as General Foods and Metcalf should not under the circumstances make an effort to protect their own interests."

The 1949 *Fortune* article concluded that "the CEA made a poor case against Rice and revealed a weakness in theory with respect to what a corner is." The editors continued: "The broader issue of what constitutes manipulation is still being debated. In the rub between merchant and speculator, the government appears to have a strong bias in favor of the merchant hedger and against the speculator, without an adequate reconciliation of their mutual dependence in the futures market . . . in politics, of course, the speculator is vulnerable because it is easy to arouse the Puritan spirit against the out-and-out chance taker."[21]

It was an astounding decision to the grain trade. This was the first major

case to be brought by the CEA concerning market manipulation since John Jr. had endured the travails of the Corn Case. In essence, a decision that had a great many parallels to the Corn Case had been ruled by the courts *not* to be manipulation. There were some key differences between the two cases, however. As Judge Major stated, "the facts concerning the sale were not secret." In the Corn Case there had been some subterfuge about Cargill's long purchases. It would only be conjecture to wonder whether Major would have reached the same decision in the Cargill case had it been tried in October 1948. There seemed no doubt, however, that the grain trade took Major's decision to suggest a more open view toward the use of market power by individual speculators.

As the Rye Case advanced through the CEA hearings and the eventual circuit court case, it remained to see how the large amounts of rye that had come into Chicago eventually would be digested. Exactly how General Foods came out on the rye buying was buried in overall Company financial statements, and the particulars of the involvement of the Senators also never became publicly known. Cargill made out well on the rye trading. The Company had bought huge quantities of rye during this period. inventories had jumped to as high as 15.7 million bushels in December 1942; they were 12.0 million in May 1943 and 10.8 million in December 1943. One year later, in December 1944, levels had dropped to 3.6 million. They were down to 1.9 million in May 1945, with only 670,000 bushels in inventory in December, 1945 (Cargill's Chicago elevator still held several million bushels of rye owned by others) Cargill had sold vast quantities of its own rye at generally favorable margins. A very substantial part of the Company's large Grain Department profits in the crop years 1941–1942 and 1942–1943 ($3.4 million in the former, $3.1 million in the latter) were attributable to rye trading as such (the Company annual reports at this time did not break down individual grain contributions in the department). In 1943–1944, Cargill posted a much smaller Grain Department profit figure, only $766,000.

Prices of rye had risen during this period. In December 1941, Cargill's average was priced for inventory purposes at 74 cents per bushel. This had risen to only 87 cents in May 1943 and finally to $1.01 in May 1944. Rye parity prices had stayed well above the average farm prices for rye, whereas wheat, corn and barley prices had moved much closer to parity, with soybeans substantially over parity in this period. By mid-1943, oats and barley price ceilings were established by the Office of Price Administration, as wheat and corn had been just at the start of the war. The low rye prices never did justify price ceilings all through the war.

Perhaps if Charles Metcalf and Daniel Rice had been able to corner the May 1944 rye futures contract (whether intentionally or not) the price

situation might have been different. As it was, the rather steady rye production, coupled with the equally steady demand for rye had kept that grain the most stable during the war.

Looking ahead, the story on rye *after* World War II was quite another matter, for rye prices took a major upsurge in a wild period in mid-1946. In January of that year, cash rye was selling for under $2.00. By June it was up to $2.85. At this point, the Chicago Board of Trade closed out rye futures trading, suspending them until 1948. Rye futures continued to be traded in Winnipeg, and cash rye bounded upward until it reached a high of $4.83 in the spring of 1948. Although some of this amazing price rise could be attributed to the tail end of the Daniel Rice efforts of 1944 to push up price, most was due to the fundamentals of grain in the rush of reconversion.

In December 1947, a fascinating complication hit the press. The race for presidential nominations for the 1948 elections was quickening as the year drew to a close, and in early December 1947, Harold E. Stassen, a Republican aspirant from Minnesota, escalated rhetoric with public pronouncements that "Administration insiders" were profiting from alleged "insider" speculation in food commodities, especially rye. Stassen demanded that the Commodity Exchange Authority disclose names of *all* of the individuals who had taken speculative positions in the market. When the list was released by the CEA on December 22, there were 711 large traders on it. Cargill was mentioned as a hedger for corn but as both a hedger and a "speculative or spreading" holder in wheat.

This worried John Jr. so much that he wrote a detailed letter to Hugo Scheuermann at the Chase National, explaining that the CEA designation of "speculative" was being applied incorrectly to Cargill's cross-hedges. Scheuermann replied right away to reassure John Jr.: "I was really surprised by the way in which the published information was accepted here at the Bank and the lack of comment from the outside." He considered this "a further indication of the confidence which the banks have in your organization."

Companies were not the target of Stassen, however, for he was looking for public officials on the list. Only one actually appeared there, a special assistant to the Secretary of the Army who had been trading oats and cottonseed oil. Stassen called the list irrelevant and demanded information on other involvements of administration officials. A special subcommittee was formed in the Senate, with Republican Senator William F. Knowland of California as its chair, and a wide-ranging probe ensued. In the process, the grain trade once again was painted with the brush of "gambling," "speculation," and even "trafficking in human misery." The *New York Times* tried to point out that "the activities of the speculators, if they are

private persons without access to advanced information on government buying plans, are wholly legitimate," and the *Chicago Journal of Commerce* worried that the exposé would "deprive markets of lawful risktakers." By this time, the whole thing had become a political quagmire and was seen as a potentially pivotal factor in the 1948 elections. When the hearings finally were completed, the charges sounded less a reality than had been first supposed, and the issue died away, not, however, without giving the grain trade—accused once more of "speculating"—many uneasy moments.

Rice fired one additional salvo, also affecting Cargill. When he had tried to persuade the CBOT to put additional limits on deliveries of physical rye in Chicago, in December 1943, the CBOT officials seemed to support him. However, when he decided to test his beliefs on this matter in court, he found that the CBOT took a stand opposing him. He had filed a complaint before the Illinois Commerce Commission alleging violations of the Illinois Grain Warehouse Act. In effect, Rice was making a statement that state law, which was more restrictive, applied in the Rye Case.

A number of warehousemen (Cargill included) and the CBOT objected to this interpretation and counterfiled a case in federal district court. The latter ruled in favor of Rice (and with the state of Illinois). The warehousemen and the CBOT took the case to the federal circuit court of appeals, and in June 1946, the same circuit court judge, J. Earl Major, reversed the district court, siding once again with the view that the federal warehouse law was governing, even when state law was more restrictive.

Rice would not give up, and filed an appeal with the United States Supreme Court. The latter looked at the case in great detail and gave its decision on May 5, 1947—against Rice. Justice William O. Douglas wrote a lengthy majority opinion. Justice Felix Frankfurter dissented with another substantial opinion. The majority of the Court agreed that federal law was preeminent in the matters brought by Rice. "In more ambiguous situations than this," the Court majority opinion ended, "we have refused to hold that State regulation was superseded by a Federal law."[22]

Where Was the Corn?

A crisis had begun to build in 1942 relating to meat supply and the feed grains necessary to feed the animals. Already there had been a substantial black market in meat, in early 1943, mounting shortages of corn caused a similar black market in this crucial grain. Temporary price ceilings on corn had been announced in January 1943, and when these were made permanent in March (pegged to a price of $1.02 per bushel for No. 2 yellow corn at Chicago), there was widespread outcry from farmers and grain traders that the freeze had been put at a figure too low to bring corn to the market.

Farmers were holding their grain on the farm in anticipation of later price rises. Yet the government, deeply concerned about inflation, stringently held the price line.

In the marketplace, traders began to shade prices under the complex regulations. Buyers would interpret a particular rule at a slightly higher figure in order to make a sale, hoping that their bending of the rule would not be picked up by OPA regulators. This frustrated Cargill merchants. Julius Hendel, for example, apparently made public accusations of competitor price gouging. John Jr. wrote Weston Grimes: "I am distressed at hearing of Julius running down our competitors publicly, and I can only hope that he did not mention any by individual name." However, John Jr. later sided with the traders when Weston Grimes urged staying strictly within the price ceiling ranges: "I called in Art and Bert Egermayer and told them that I agreed with you in attaching great importance to this matter of ceiling prices. However, if the two of them agreed as to the legality of any sales they were not to bother me, but if they disagreed I wished to know all about it." A few weeks later, he added, "Occasional instances might arise where the boys here might disagree with you as to legality and like to take a chance."

Despite government exhortations to both farmers and the grain trade, the supply of corn to its users fell painfully short of needs. In June 1943, the War Food Administration (WFA) put out a special bulletin to farmers, urging them to market their corn and pointing out the number of products made from corn that were essential to war industries: "Among these uses are: corn, core binders for foundries; special molds for castings of aluminum, steel, iron, magnesium, bronze, and copper for airplane engines, tanks and other implements of war; nitrous starch for explosives; fibrous glass cloth used for bomber brake linings; adhesives for making containers for shipping ammunition and other war products; starch for the manufacturer of textiles and also for all paper products used in shipping containers." Some 11 million bushels were needed, said the agency.

Finally, when stocks still were falling short, the WFA took the unprecedented step of seizing all of the corn in some 96 midwestern terminal elevators. The WFA would now be the allocater, rather than the market. Cargill elevators in Omaha and Kansas City were affected. The Company had a particular problem in Omaha, for a serious flood had occurred just at this time, and the terminal had had to close from June 2 until June 21. In the process, Cargill and Hermitage Feed Mills in Nashville, Tennessee, exchanged harsh words over Hermitage's corn stored at Omaha. With the government intruding and arbitrarily allocating corn supplies, Cargill also incurred the wrath of Senator Styles Bridges of New Hampshire, who alleged that Cargill was refusing to sell corn to Merrimack, New Hampshire, farmers.

The shortages and government allocations continued into 1944. In January of that year, John Jr. complained about how empty the Company's elevators were: "We ourselves have 4,700,000 bushels of space in the country. We have 129 elevators located at 88 points." He continued: "These various OPA restrictions are driving us all crazy, as we are faced with wholesale violations by competitors, and of course we have to live up to the letter of the law." One problem, he pointed out a few weeks later, was that "the customers are showing a decided tendency to go around us and go direct to the country [which, of course, Cargill itself had done in challenging the Call Rule after the Corn Case]. This situation with fixed ceilings prevents us from obtaining any advantages from our superior efficiency and business is being done today on a friendship basis, which has never been one of our theories."

This cautiousness escalated the irritations of the Company traders. As Austen Cargill put it in a letter to John Jr. on March 31, 1944, "The boys in the Merchandising Department were terribly discouraged and resentful of the fact they could not do things everybody else was doing." The fact that the Legal Department seemed to be establishing basic company policy troubled Austen, and at this point he made a decision to "establish a buffer between the members of the organization that are working on Federal regulations and the boys in the Merchandising Department. . . . Hereafter all information pertaining to regulations, or interpretation of regulations, are to be sent to Bob Woodworth, and I have told the men in the Operating Department that they need not pay any attention to any information concerning those regulations until it comes to them from Bob and that they are to report to Bob the practices our competitors are following in all cases where those activities are injurious to us." Woodworth was a seasoned trader, and the assignment of this sensitive role was a recognition of his importance in the organization.[23]

Two New Diversifications

With the great interest in corn and other feed grains, Cargill saw opportunities in two new areas, each related to the other. Only one was a true success. The first involved dog food; the second, soybean processing.

In July 1941, Cargill MacMillan was contacted by a college friend whom he had not seen for many years, Newell H. Schooley. He headed a family firm that had been manufacturing animal foods since 1870. Schooley had become fascinated by the science of dog nutrition. After testing 61 different formulas (so he stated in his advertising), he had produced in the 62nd a dog ration of "26 choice ingredients for a balanced diet." He had named the product "Blue Streak" and was marketing it in the East from his Luzerne, Pennsylvania, headquarters. His letter to Cargill MacMillan sug-

gested that the Company become sales agent for Blue Streak in the Midwest.

To the amazement of many Cargill people, the project was accepted, pushed along by Fred Seed, who was now heading the Cargill feed group. Seed assigned James Sheehan to handle the effort, and by September 1942, *Cargill News* devoted a half page to its new Cargill Dog Food It was "a tasty dish for any dog," said the October *Cargill News* advertisement—"your dog will thank you." Early in the marketing, it was decided to continue the Blue Streak label, rather than calling it "Cargill." There was a full-page advertisement in the March 1943 issue, including a picture of a dog and having all of the accoutrements of full-scale advertising. Blue Streak was only marginally successful, staying on the retail shelves through the rest of the war. After the Japanese capitulation in August 1945, Cargill continued with further dog food efforts but not with Schooley.

In late 1942, Schooley was asked to visit John Jr. in Minneapolis, ostensibly for further discussions on dog food John Jr. spent a whole morning with him and by the end of that meeting had sketched out a whole new idea, namely, development of a human balanced-diet formula, a highly nutritional, simple-to-eat food. John Jr. even had a name for it—"man food"

Schooley was fascinated and returned to his organization for a new round of testing, hoping to develop a product that would be palatable as well as nutritional Seed and Julius Hendel also became intrigued by the notion, even taking a special trip to Peoria, Illinois, together to visit the U.S Department of Agriculture testing laboratory there John Jr., once again exuberant about a new project, wrote Schooley in February 1943. "I am immensely interested in your suggestions and approve whole-heartedly of your trying to develop just the product you described. If any trips seem necessary, I want you to take them, and any reasonable experimental expense is perfectly all right."

As experimentation continued, various formulas were considered An early one had 24 percent malt powder, 17 percent bread flour, 16 percent yeast, 10 percent rice flour, 10 percent sugar and other ingredients in smaller quantities Later, the formula evolved to higher percentages of corn flakes, wheat, rye and barley flours, rolled oats and soybean grits, again with other ingredients in smaller quantities.

One of the ingredients of great interest was the soybean. Widespread testing of soybean products (both meal and oil) was being conducted all over the country, in an effort to remove the objectionable taste of the bean. One promising approach at that time was to soak the bean in an alcohol base, then boil the alcohol off. John Jr. thought that it might be possible "to educate the people up to liking the soybean taste by gradually increasing the amount they eat." He even suggested that one could "start out with babies and build up their taste for soybeans from the start." John Jr. enthused to Schooley that "I am confident that it is only a matter of a fairly short time before this is licked," but he was forced to admit that "for the time being I'm afraid that the soya bean is out."

The "man food" project continued into 1945, with further formulations and further cost calculations The cost always seemed too high for ready salability of the product, and the Schooley project finally died away, once again an idea of John Jr.'s that was realistic but ahead of its time.[24]

If the soybean was not yet ready for "man food," it had come into its own as a key ingredient for animal feed. With the tremendous emphasis on feed during World War II, the soybean had become a major oilseed, crushed both for its meal and oil. Cargill had done some soybean trading in the mid-1930s. With the escalation of feed requirements, the Company now began purchasing in larger quantities (although still tiny in comparison to the major grains that Cargill traditionally purchased—wheat, barley, oats, rye and corn) Nevertheless, with soybeans in short supply, the feed division had difficulties in obtaining adequate quantities for feed mixing purposes. The OPA ceilings were so low on soybean meal that it was much more profitable for crushers to put their meal into their own feeds, rather than sell it This was doubly frustrating, for some major new markets were evolving for both soybean meal and soybean oil.

In January 1943, the Company, with the initial push coming from Julius Hendel, announced the purchase of a soybean mill and feed plant, the Iowa Milling Company in Cedar Rapids, Iowa. The price was $300,000. Then, in October 1943, additional soybean milling capacity was acquired through the purchase of the Plymouth Processing Mills of Fort Dodge, Iowa. Later in that same month, another processing plant was purchased, in Springfield, Illinois, the Illinois Soy Products Company. The Fort Dodge plant had a capacity of 75 tons of soybean meal per day, the Springfield operation could crush approximately 3,900 bushels of soybeans per day The November 1943 *Cargill News* commented: "Oh dem golden soybeans!"

These were all small facilities Yet this was a beginning, unlike the dog food and "man food" projects, it had great promise, for soybean crushing became a major arm of the Company, from the later part of World War II on to the present. John Jr. visited the Cedar Rapids plant and wrote his father an ebullient letter: "I sat next to Guy Thomas at luncheon, who was extremely frank in saying that . . . he would have bought it himself at any price if he had known it was for sale. After that day spent there I readily understand this The plant right now is grossing about $1500 a day and our expenses are relatively small. I now understand perfectly where Archer's [Archer-Daniels-Midland Company, a soybean crusher with its head office at that time in Minneapolis] enormous earnings are coming from . . . 50¢ a bushel . . . at their new Decatur plant . . . largest in the world." Archer, however, was using the diffusion method (solvent extraction, uti-

lizing chemicals), whereas Cargill's three plants used the expeller method at that time, which was not as technologically advanced a process.[25]

Should Cargill Advertise?

An outgrowth of both the feed and dog food projects little noticed and not grasped by most Cargill people was the advent of Cargill retail advertising. As early as the summer of 1941, the Company conducted feed advertising at state fairs. By August 1942, radio advertising was being used for the Company's hybrid seed corn; the Blue Streak dog ration advertisements also began at this time. From November 1942, Cargill Feeds was broadcasting a barn dance every Saturday night over a Minneapolis station, featuring the popular Red River Valley Gang. Commercials on the program linked the Cargill name not only to "the red-striped feed sacks" but also to Cargill's overall war effort and "its folks who are giving, as you are, their BEST efforts for victory."

John Jr. gave his personal blessings to the barn dance script but wrote his father a quizzical letter a few months later, "I was talking with Fred Seed this afternoon and discovered to my astonishment that the Feed Department alone is spending no less than $25,000 a month on advertising. The largest single item is in radio. In addition to our Minneapolis program, we have one on the Cowles station in Des Moines . . . we are also advertising very heavily in the 'Farmer' and 'Wallace's Farmer.' "

John Jr. seemed not to comprehend fully this retail mentality. He continued, "The interesting part, though, is that in spite of this heavy advertising expense, we made $36,000 for the three feed mills in January and about the same in February. I was also astonished to discover that we are selling four times as much feed in Iowa as we are in Minnesota." As good as he was in making connections and seeing the larger picture, John Jr. was unable to make the link between advertising and larger sales. It was difficult for *most* of the Cargill group to think of the Company in anything but commodity terms, for the merchant (trading) mentality continued to dominate.[26]

The Barge Case Reaches the Supreme Court

In late 1941, Cargill and several of its grain trade colleagues (Norris Grain, Santa Fe Elevator, Continental Grain and Rosenbaum Brothers), encouraged by the strong dissent of Joseph Eastman in the Chicago barge case (see chapter 13), took this adverse ICC case to the federal district court for the Northern District of Illinois. They were joined in this by the Inland Waterways Corporation and the A. L. Mechling Barge Lines (as an intervenor).

Here they sought an injunction to require the railroads to grant grain arriving at Chicago by barge over the Illinois Waterways the privilege of moving out of Chicago by rail on "proportional" rates applicable to competing grain arriving at Chicago by lake steamer or rail. The railroads (the Baltimore & Ohio, the New York Central, the New York, Chicago and St. Louis, the Pennsylvania, the Erie and the Chesapeake & Ohio) were willing only to give such barged grain "local" rates, which were in all cases higher. To the surprise and delight of the plaintiffs, the three-judge panel decided on April 16, 1942, that this was unfair and granted the injunction. Pointing out that there would be less incentive to ship by barge if the higher "local" rate was required, Judge Charles E. Woodward held that this would be "a nullification of a consistent national policy to further the improvement of inland waterways in order to provide economical transportation," that this was "in practical effect, an attempt to bring about a cartelization of barge and rail transportation, which, if consummated, would destroy competition between these two means of transportation."

Strong words, these! The railroads were not daunted, however, and persuaded the United States Supreme Court itself to hear the case. That Court reversed the district court ruling in a 5–3 decision handed down on June 14, 1943, denying the injunction and awarding the case back to the railroads. The majority decision was a complex one, and there was a lengthy, involved dissent.

The majority opinion, written by Justice Robert H. Jackson, agreed with the original ICC statement that the railroads' rates were "just and reasonable," for "long hauls have generally been thought entitled to move at a rate less than the sum of the rates for local or short hauls between intermediate points." If an injunction were to be sustained, grain "originating 60 miles from Chicago" would gain proportionals "fixed with reference to grain from the Northwest Territory, embracing points in Canada and as far west in the United States as Washington and the Dakotas."

Justice Hugo L. Black, writing the dissenting opinion, reiterated the district court belief that this was unfair competition by the railroads. He quoted a rail lawyer's statement made at the original ICC hearing, that "we made this proposal, as I have stated several times, and filed these tariffs with the hope that we could drive this business off of the water and back onto the rails where it belongs. . . . We are not in love with water transportation . . . and we believe that we are entitled to that grain business." Black emphasized that the Transportation Act of 1940 provided for "fair and impartial regulation" but that "Congress, fearful, in the words of several members, that the Commission was 'essentially a railroad-minded body,' took every precaution to prevent discrimination against water carriers." He quoted Joseph Eastman's words in the same vein, in the latter's dissent in the original ICC case, and chastised the railroads for their delaying tactics.

Often a Supreme Court ruling becomes the final word, to last over many years. In this case, however, the central issue—just how railroads were to compete with a new strong entrant in transportation, the inland waterway barge—was so fundamental to the country's long-held concepts of free enterprise that it was inevitable that a further test would come in the courts.

It did, once again involving the A. L. Mechling Barge Lines. Essentially the same issue came through the courts once more, in 1946. It had been won by the railroads in the U.S. District Court and appealed to the Supreme Court. The petitioner this time was Mechling, one of the intervenors in the earlier case. The case was decided on March 31, 1947, with Justice Black now writing the majority opinion. Black found that "the basic error of the Commission here is . . . that the Congressional prohibitions of railroad rate discriminations against water carriers were not applicable to such discriminations if accomplished by through rates. But this assumption would permit the destruction or curtailment of the advantages to shippers of cheap barge transportation whenever the transported goods were carried beyond the end of the barge line." Inasmuch as Congress had forbidden such discrimination, Black and the majority held for Mechling—the barge companies had prevailed. There was a dissenting opinion by Justice Robert Jackson, with Felix Frankfurter joining. The decision was a tremendous shot in the arm for the inland waterway users. For Cargill, it had special impact in Chicago (shipping from Illinois River terminals) and in Memphis, which suddenly came alive.[27]

Guntersville: An Opening to the Southeast

In early June 1943, Austen Cargill and John Jr. and his brother Cargill were invited by A. L. Mechling, the head of the barge line involved in the Supreme Court case, to accompany him on an inspection trip up the Tennessee River. The Tennessee Valley Authority (TVA) had upgraded navigation on that river in a major way in the 1930s. A well-fitted inspection vessel was owned by the Mechling organization, and the trip was a fascinating one for the three Cargill executives. As soon as he returned, John Jr. wrote Frank Neilson: "Our trip on the Tennessee was a tremendous success and I am hoping we can have a barge line and some houses [grain elevators] going there soon. It reminded me very much of the famous junket in 1923 [in regard to lumber] when Roy [Wisner] and father went to British Columbia. We certainly had a good time and learned a great deal. . . . Austen snores just as formerly but Cargill is now running him a close second."

Out of this informative and enjoyable river trip came two new ideas. First, John Jr. proceeded immediately to obtain elevator capacity on the Tennessee. On August 15, 1943, Cargill purchased the elevator properties and grain business of the O. J. Walls Company at Guntersville, Alabama. (Cargill failed to get a "non-compete" agreement from Walls, and O. J. promptly built another small elevator and set himself up in competition!)

By size standards, the Guntersville elevator was almost a fly speck in the Cargill terminal family—it had only a 100,000-bushel capacity. Yet in terms of concept and potential, this elevator had a tremendous impact on Company business. The southeastern part of the United States was expanding its agricultural and related businesses in a significant way even at this time (and certainly more so in later years). In particular, the poultry business, with its substantial demands for feed, was a promising business prospect. Using the Tennessee River as a stepping-off point for this whole area (utilizing trucking beyond Guntersville) proved to be a very effective way of reaching this important market area.

The second effect of Guntersville was on Cargill inland waterway equipment. Cargill had not only been building ocean shipping for the navy but also was now involved in the construction of the inland-waterway towboats for the Defense Plant Corporation. These were not of the size that John Jr. believed were most effective. Indeed, the huge length of the DPC boats made for limited use in areas where there were significant numbers of locks. These huge towboats were therefore most effective in the lower Mississippi.

John Jr. now began an extensive correspondence with TVA executives, particularly with David Lilienthal, its chairman. John Jr. wanted to build a Cargill-owned towboat to the Company's own specifications (i.e., much shorter, as with the Erie Canal "*Carneida* type" towboats). He also wanted to construct large, 200-foot steel barges. The total length was such that this configuration could navigate the Tennessee River upstream only as far as the Hales Bar lock.

The TVA officials responded to John Jr.'s question about whether this lock was going to be improved by outlining the Authority's ultimate objective of having twin locks in parallel at each site, each new lock to be some 600 feet in length. However, this plan was not to be implemented until after World War II. John Jr. wrote C. T. Barker, the head of TVA's river transportation division: "I do not think we will change the contemplated length of our new equipment but I somehow think we will be able to dig up enough small equipment to take care of what business we have above this lock."

Out of this TVA initiative came John Jr.'s decision to open a shipbuilding facility, separate from Port Cargill, to begin construction on the barges. A location on the Minnesota River a few miles upstream from Savage at Chaska was chosen for this work. Separate crews were assembled, and work proceeded quickly toward construction of two barges, each of 2,500-ton capacity. Both barges were to be 278 feet in length, with a 43-

foot, 6-inch beam. Each would have one end molded but would be square on the other end—this latter to fit John Jr.'s new concept, a square towboat that could be put between the two barges as one long integrated unit. Underneath the towboat, four propellers would be running, each in its own tunnel, to keep down the draft of the towboat. John Jr. had a 1/12 scale version of this built for practice on Lake Minnetonka, near his home, and "to our absolute amazement the mid-ship propulsion turned out to be just as good as the stern propulsion." The midship design also was tested with the *Carneida* (one of Cargill's Erie Canal towboats) by Marcus Marshal, the Albany superintendent. The results here also were promising. At one point, John Jr. even hoped that he could interest the Office of Defense of Transportation in helping to finance the new towboat/barge design as "experimental."

The towboat itself was to be built by a subcontractor, the Dingle Boat Works in St. Paul. As the planning of this towboat/barge combination continued, the midbarge positioning of the towboat seemed not to be the best idea after all, and the Company changed its plans for the towboat to a small-boat version built in early World War II called the *Sea Mule*. The final version was just over 40 feet in length and 33 feet wide; it had a draft of about 6 feet 6 inches. There were to be eight Chrysler marine engines with a total theoretical capacity of 1160 horsepower.

The towboat was completed right on schedule and launched in September 1944 as the *Cartasca* (a combination of "Cargill" and "Itasca," the lake at the headwaters of the Mississippi River). John Jr.'s 11-year-old daughter Marion was the christener, assisted by Cargill MacMillan's daughter Paula. By mid-November, the vessel was fully equipped, and John Jr., Cargill MacMillan and Austen Cargill all went, together with the towboat, down the Mississippi as far as Hastings, Minnesota. John Jr. wrote his son about the day:

> The captain is a very competent man but, like any new piece of equipment, it takes time to learn how to handle it and, unfortunately, just below Saint Paul while going under the Terminal Railroad bridge, we struck a rock with a starboard propeller, which did a great deal of damage. It not only bent one propeller but ruined the reduction gears on three of the other engines, so while we were able to make Hastings all right, the damage showed up when we got down the river later on and it took them until 6:00 o'clock Wednesday night to go under the bridge at La-Crosse, a distance of only 150 miles. After we get organized, they should make this distance in one day.[28]

The Beginnings of the Carmacs

There was yet another outgrowth of that inspection trip that John Jr., Cargill MacMillan and Austen Cargill took with the Mechling group on the latter's inspection vessel. The idea of having one's own inspection vessel/private yacht appealed to the three very much. The following spring (1945), John Jr. gave C. C. Boden, the head of the New York office, the assignment of looking for just such a vessel. He spelled out to Boden his views on this craft. "We heard that the Navy is now returning yachts to their owners and that most of them were in pretty bad condition . . . it struck us that the larger yachts might be selling fairly reasonable. . . . If we could pick up a suitable boat for this purpose we would be very much interested, especially as we would view it more as a workboat than as a yacht." John Jr. wanted sleeping quarters for eight or ten people in a vessel large enough for use on the Great Lakes and for use "coast-wise in selected weather" yet low enough to go under the bridges of the New York State Barge Canal and the Chicago River. Cargill itself would do the overhauling, so condition was not a particular criterion.

The yacht broker indeed had a number of such boats listed, and in early 1945, Cargill purchased a 115-foot craft, originally built in 1929 by a reputable shipbuilder, George Lawley & Sons, and most recently used for submarine-chasing work in the North Sea. The purchase price (from the War Shipping Administration) was $16,150. The repairs and overhaul cost an additional $35,925. For just over $52,000 the Company had a quite adequate "inspection vessel" (John Jr. remonstrated, "We are very careful not to describe it as a Yacht"). It was given the name *Carmac*, a natural combination of the two family names, Cargill and MacMillan.[29]

Personnel and Wartime Tensions

That first year of the American involvement in the war (1942) brought great pressures on work life all over the country as more and more young men in their peak years of productivity were drafted into the armed forces. Attrition in the Cargill work force began to tell. It was easier to persuade draft boards of the essential nature of key jobs at the shipyard than it was for the grain trade jobs. "It seems," John Jr. wrote to his father, "that the name 'Merchant' is an anathema to a draft board as it denotes a profit motive in buying and selling." The Company had to redefine these jobs as "in Charge of Procurement and Distribution of Grain."

One pronounced effect was the increasing role of women in industry. By the very traditions of the grain trade, Cargill had been a male bastion. The heart of the business, merchandising and trading, had always been staffed by men. Now women took a number of these positions. When one young trader was drafted, his boss wired Ed Grimes: "I was thinking of putting a girl on in his place, as any young man we could get would probably be subject to call also." He queried Grimes, "If this meets with your approval" (it did).

In the terminology of that day, these women were considered "girls" (but so were male employees often called "boys"). To the surprise of many of the old-timers, a number of these women became excellent traders. The *Cargill News* reporter, commenting on four women who were being trained as merchants, noted: "It is certainly strange to enter some of the departments that have always been strictly masculine and see the pleasant surprise of a comely feminine countenance." A longer article on one of these four, Jane Spaulding, was headlined "Cargill Girl First to Enter Buffalo Grain Market." The focus of the article was on her professional qualifications.[30]

Despite attrition from the draft, the figures for total employment at Cargill skyrocketed. In 1940, the Company employed, in all of its divisions, 1,086 people; this became 1,696 in 1942, 3,488 in 1943 and a wartime high of 3,822 in 1944. Both Cargill, Incorporated, and Cargo Carriers had had small increases in numbers, but the major jump had been in the Shipbuilding Division. From a zero position in 1941 the numbers at Savage had climbed to 339 in 1940 and to 2,067 in 1944.

By October 1944, some 516 Cargill men were in the service; 7 had been killed in the war. *Cargill News* editor T. R. Shaw assigned Georgina Hamilton (later Georgina McGillivray) to the task of following all of these service people. In July 1942, she began a column, "Gems of Service," filled with news and personal reminiscences of Cargill's men in uniform. When Shaw retired as editor of the *Cargill News*, to be replaced by Tom Totushek, Hamilton became an assistant editor for the house newsletter. Memories of the effectiveness of this wartime column have extended down to the present. Well remembered, too, were the many humorous exchanges in the *News* between "Weary Willie" (Norman Williams) and "the Buzzard" (Buzz Larabee), extending over many issues in the late 1930s and early 1940s.[31]

Older men had to take over many tasks in this period. There were some devastating losses in this group. Frank Neilson had had serious heart problems since the beginning of the war and was off on an extended sick leave, with no assurance that he could get back to the job (he never did). Then, in November 1942, both company and family were shocked by the sudden death of Arthur Wheeler. He had been visiting his brother-in-law, Will MacMillan, the University of Chicago mathematician, and had a sudden fatal heart attack. He had held the purchasing job that had been arranged by John Sr. for just six months.

Three months later, Ross B. Wilson, the chief engineer of the shipyard (who had been brought from Albany), also suffered a sudden fatal heart attack. John Jr. wrote his father: "His death is a terrific shock, as he had become immensely popular within the organization and, as you know, we had come to lean on him very heavily." Health was already on John Jr.'s mind (his own hypertension had continued more or less unabated), and he confided to John Sr.: "His and Arthur's death had made me wonder if we should not institute some system of physical check-up on those of our executives who are, say, 50 and over. An occasional visit to a first-class clinic . . . should prevent this sort of thing in the future."

In January 1944, John Jr. had seen his own doctor, who "made a very careful check of the arteries and blood vessels in both eyes and told me that they revealed a shocking state of hyper-tension . . . he thought I should be in a hospital instead of the office." Austen Cargill, worried about John Jr.'s health, finally wrote a doctor friend of his, in July 1944: "John Jr. is having serious difficulty controlling his own blood pressure. . . . Roy Hoople told John Jr. that he was under the impression you had tried out the so-called 'rice diet' for high blood pressure." John Jr. asked Austen to find out the results, for "he is under the impression that a doctor at Duke University has reported some very wonderful results from the so-called 'oriental diet.' " Only after the war, however, was John Jr. able to follow up on this lead of Austen's. Cargill MacMillan's correspondence evidences his real worry at this time about his brother's health. Subjected also to the heightened tensions of his unfamilar Port Cargill assignment, he experienced the personal trial of dealing with an occasionally recurring drinking problem.

The relationship between Austen Cargill and John Jr. apparently had improved during this period. Cargill MacMillan's absence at Port Cargill had forced Austen and John Jr. to depend more on each other. John Jr. wrote his mother and father in March 1944:

> I cannot tell you how I have enjoyed working with Austen this last year. It has been impossible to get a more co-operative executive. . . . I cannot see that we disagree on a single issue. Another most satisfactory thing about him is his tremendous capacity for detail . . . he can grind out more work than almost anyone around here. On top of this he has developed a capacity of a very high order in picking men and has surrounded himself with only the best. He has grown in stature beyond belief these last few years and I consider him today an enormously valuable asset to the business.

Given the truly precarious state of John Jr.'s health, it was fortunate that Austen's role had become so strong. He was the second-highest officer in the Company as executive vice president and in all probability would have been the first choice as chief executive if John Jr. were incapacitated.[32]

Employee relations practices changed markedly during the war because of wage constraints mandated by the government. These limitations led to an important new Cargill compensation supplement, the "Profit Sharing–Stock Bonus Plan." This allowed the Company to pass along to its employees a portion of its earnings in profitable years (the earlier wartime years were) without violating the federal wage stabilization laws. A trust

was established, funded by an allocation of Cargill second preferred stock. Each employee had an interest in the trust based upon the proportion that his or her total compensation in 1942 bore to the total compensation earned by all eligible employees. When dividends were declared on the stock, the proceeds of the trust-held stock were then allocated to each employee on the above basis, not taxable until the money was actually distributed to the beneficiary. The trustee of the trust was given the right to decide upon the method of distribution. The amounts accruing to individual employee accounts was not very large, but the "shared" concept behind the plan made an important contribution to employee morale.[33]

The Weather Bureau Tells John Jr. "No"

John Jr. had continued his infatuation with weather forecasting, his central hypothesis being that the earth's atmosphere responded to gravitational forces of the moon and planets. Early in the war he claimed to have predicted a tornado that hit Florida. He also continued his work for a book on weather prediction. As concerns built up about the Allied invasion, in June 1944, John Jr. made a set of specific predictions about the weather off the English coast and sent drawings for the period June 6-June 14 to the chief of the Weather Bureau, Commander F. W. Reichelderfer, who turned over John Jr.'s materials to his statistical staff for serious study. On August 4, 1944, Reichelderfer wrote John Jr.:

> We believe that it [John Jr.'s theory] is not in accord with observed physical facts . . . the number of cases where the conditions turned out as forecast does not appear to be greater than those which can be obtained by random methods, the successful cases are not in themselves evidence of sound principles of forecasting. . . . We must examine with care those methods of long range forecasting which rest primarily upon reference to a number of "successful" cases. . . . The record must show a significantly greater percentage of successes than can be attained by random methods or other unscientific systems. . . . Many well-known long range forecasters . . . point to their successes as evidence of the soundness of their theories and methods but when examined by impartial statistical methods, it is found that these successes must rest almost entirely on chance. A significant thing is that these various long range forecasting methods are usually quite irreconcilable, one with the other in theory, and the particular weather conditions forecast by use of the various methods are frequently contradictory.

After noting that he "would offer a number of standard references by outside, disinterested authorities which present what we believe are sound physical principles," Reichelderfer ended: "We should be glad to hear from you if you desire further discussion, but we do not believe that your present approach to long range forecasting offers a solution." The record does not show any reply by John Jr.—Reichelderfer's letter must have been

very deflating to him. Yet he kept his interest and continued to add to his own book manuscript on weather.[34]

Cargill's Wartime Organization Changes

Deaths of key people and new Cargill activities early in World War II brought significant reassessment of organizational relationships. Shipbuilding was made a wholly separate profit center (necessarily, as all activities were for government contracts). John Jr. had assigned his brother Cargill executive responsibility for the shipbuilding operation—indeed, to be there almost every day. This forced many of his brother's existing responsibilities back on John Jr. himself, who missed his brother's involvement and complained often of the demands by the armed services ("our shipbuilding . . has put an awful burden on the rest of us"). Frank Neilson, continuing on sick leave, also was sorely missed. John Jr. kept Neilson well informed of Cargill activities, particularly those under Neilson's responsibility. When John Jr. proposed appointing Wallace Hyde acting head of shipbuilding, Neilson felt that this was preempting his own assistants, James Hayhoe and Joe Bailey. John Jr.'s view prevailed on this one.

The difference of opinion here pointed up once again some intraorganizational friction (the words that Neilson chose to use in his comments about the Hyde role). Over the next several weeks, John Sr. and John Jr. worked on a written statement about coordination and interaction for the senior executives of the Company Circulated on May 18, 1942, it began this way: "There have been several instances that have resulted in serious consequences to the Company which have been caused solely by information being unwittingly withheld from executives who had a vital interest in this information. . . This lack of coordination, which was brought about principally by carelessness, may be overcome by our executives making use of a system similar to that we use in the case of Weston Grimes's Washington letters" (these automatically had been circulated to all 12 top executives). The memorandum exhorted each key person to make written records of trips and conferences, then pass these around to all other interested parties, each of whom would initial it. This was being treated as more than just a routine proposal—some of the jealousies and backbiting had become too pronounced. This "solution" was too tentative, too tepid, given the evident organizational stress. The stress continued, apparently unabated.

The Company's predilection toward independence continued strong. The Corn Case had had lasting effects. In mid-1943 the Balfour-Guthrie grain-trading organization made overtures to Cargill about a joint sales office in Europe. It was an intriguing proposal, said John Jr., as "they

would put up the money (on which they claim themselves . . . very long) and we would put up organization (on which they seem to think we are very long)." Balfour-Guthrie was probably correct in its assessment of Cargill organizational strength (despite the stress). Nevertheless, John Jr. was lukewarm to the idea: "As, you know, we are not especially good co-operators." Nothing came of the proposal.

The Cargill organization *was* deepening, in good part because of the highly successful training program of Julius Hendel all through the 1930s. In addition to Hyde at the shipyard, several other younger men were being placed in increasingly major roles. One was Ralph Golseth, who was now appointed vice president in his position as direct assistant to John Jr. In March 1943, Frank Neilson finally was told by his doctor not to return to work, and Hayhoe and Bailey were formally appointed to Neilson's grain terminal responsibilities (Hayhoe for the physical properties, Bailey for the grain). Fred Seed (in feed) and Erv Kelm (in grain), also members of the early training programs, were taking increased responsibilities in the Minneapolis office, as was Ford Ferguson, now head of the Chicago office.

In August 1943, the board formally established separate divisions for the Company (grain, warehouse, sales, country elevator, shipbuilding, seed, administrative and financial), in the process assigning the various vice presidents as heads of these divisions and formally establishing the position of assistant vice president, as well as new positions of assistant secretary and assistant comptroller. Several new sales branches were also established at this point, at Guntersville, at Tampa, Florida (where Philip Sayles had moved from his Chicago responsibilities), at Cedar Rapids and at Maumee, Ohio.

Another new, smaller terminal had been constructed in a key spot on the Illinois River at Ottawa. It had only a 100,000-bushel capacity, but its importance went far beyond this, for it was set up to be served primarily by trucks. Highly efficient state-of-the-art unloading and loading equipment made it one of the most effective terminals, just at the time when such trucking links had become very promising. The total terminal capacity for the Company was now over 71 million bushels.

John Jr. was concerned about overlaps between rail and water transport, and in January 1944 he asked an internal study committee to look into the matter. Cargo Carriers Incorporated (CCI) seemed a logical organization to handle both of these functions, and later both were consolidated under it. A more serious concern was the overlap between merchandising grains and merchandising feed and feed ingredients, now that the Feed Group had the oilseed crushing operation, too. Ralph Golseth, the chair of the Study Committee, reported a few weeks later (in February 1944) the committee's view that all trading should be split away from Feed, that Feed was to do no trading. A Grain Department person was assigned the task for this trading, one who had as his "main job . . . to supply the Feed Mills with ingredients and whose secondary job is to make money trading in these and other feed ingredients." This put an ambiguous dual responsibility on the Grain Division, which was now to act both as trader and initiator of procurement in the case of feed ingredients.

Highly centralized organizational concepts continued. Control from the top was further enhanced with initiation of the Company's first formal budget in July 1944. In November 1944, department heads received another memorandum that public statements were to come out *only* over the signature of Ed Grimes, "in order to avoid any possibility of conflicting, contradictory or undesirable press releases." The functionally determined organization structure also stayed in place. In early 1945, Julius Hendel was put in charge of all merchandising activities of Cargill, including terminal merchandising, the Country Division, the Seed Division and the Oil and Feed Division. The *Cargill News* announcement of Hendel's new role stated once more: "Cargill has long been set up on a functional scheme of organization as distinguished from the line plan. The distinction, of course, is that Cargill has one man in charge of each function, e.g., finance, plant administration, merchandising, etc." Then the article frankly stated what had long been known. "The great weakness of the functional organization is that after a concern reaches a certain size the co-ordination between departments tends to become inadequate. . . . It is hoped that these changes will result in much closer co-operation between the four departments." Hope did not become reality—the long-standing feuding among some of the principals continued.

There also were problems once again with the issue of conflict of interest, for John Jr. put out a fresh memorandum on the subject on December 31, 1943. This time a new issue arose over employee-owned mortgaged real estate. John Jr. stated:

> The Company has long made it a practice not to permit officers or employees to deal on margin in stocks, bonds or commodities, nor to permit the engagement in business in activities on any scale which might in any way detract from the undivided attention of the employees. Dealing in mortgaged real estate is considered in the same category as dealing in commodities on margin, although the prohibition has never been held to apply if the real estate is used as a personal residence. The Company has no wish to control in any way the investment by its employees of their savings, but it does want the undivided attention of its employees in behalf of its own activities.

What seemed here to be a stringent prohibition on employees holding mortgaged real estate was not followed at a later date, for several senior executives became substantially involved in outside real estate endeavors.[35]

Death Takes a Further Toll on the Organization

Unexpected deaths continued during the rest of the war. In addition to the deaths of seven Cargill servicemen, senior members of management also were lost to illness. Rudy Semsch, the controller, who had been so importantly involved in the insider trading incident in the late 1930s and in the sensitive negotiations with the government officials on the Savage shipyard arrangements, had suffered a serious brain tumor that had taken him off the job in mid-1943; he died on February 28, 1944. Two months later, in May 1944, George Turner, the general superintendent of the Country Division, died on the job. Early 1945 brought additional deaths of management veterans. Fred W. Drum, a vice president and Cargill's sales manager, died in February; he had retired in 1939. Dudley M. Irwin, the "grand old man of Buffalo," once known as the "barley king of the East," also died in February 1945; he had retired in 1940 after 40 years with Cargill.

In that same month of February 1945, Frederick E. Lindahl, the dean of Cargill's veterans, died. He had started working for James F. Cargill in 1884 and had been centrally involved as the head of the Duluth operations from 1891 to his death. He had retired from active service in 1940 (at age 80), after 55 years of Cargill employment but still went into the office every day. At retirement he obtained his first driver's license and celebrated by driving from Duluth to the Twin Cities and return (he had used a chauffeur previously).

On March 6, 1945, Frank Neilson died. After his serious heart attack early in World War II, he had continued to correspond with John Sr. and John Jr. about management decisions in his area, covering not only the terminals but the important Savage shipbuilding operation. Unfortunately, his health never allowed him to return to work, and he retired in 1943. He had worked closely with John Jr., who felt his loss deeply.

These deaths of key senior management officials occurred in the context of another death right at this time. John Sr. suffered a renewed series of heart problems in the fall of 1944 and died on October 18, 1944. No one could equal the contribution that John Sr. had made to Cargill business development and values. His philosophy permeated the entire organization, leaving a lasting imprint on John Jr., Cargill MacMillan and Austen Cargill. John Jr. had been the chief executive officer in fact since the early 1930s, when John Sr. had had his first serious heart attack. Yet the counsel of this uncommon man had continued to exert major influence on the Company through the rest of that decade. By the beginning of World War II, John Sr. had removed himself from the mainstream of Company decision making, although his sons, Austen Cargill and others kept him fully

informed. The Company's senior management paid homage to his manifold contributions, as he joined the "innumerable caravan," the William Cullen Bryant poetic phrase that Ed Grimes used in the major board of directors' statement, composed in December 1944 and published in the *Cargill News* of June 1945.

It bears repeating that the values and belief systems of present-day Cargill can be traced back to John Sr. In this sense, the occasion for the family was not a sad one in its usual sense—John Sr. had contributed his full being to his family, his friends and his organization and now was at rest with a task fully accomplished. John Jr. wrote a relative shortly after his death "We are really extremely thankful that we had him with us as long as we did because in 1933 the doctors in Johns-Hopkins took me aside and told me that he only had a very few months to live." That the doctors were wrong was a great blessing.[36]

The "Lake Office"

John Jr.'s increased interest in the armed services and their role in the war led him back to his memories of his own tour of duty in France in World War I. Then, he had become fascinated by the notion of his commander, General Foote, that the top command unit of an organization could run best if it segregated itself into quarters that allowed close interaction among the key people and minimum disturbances from the outside. General Foote particularly had been enthusiastic about the quartering of his unit in a French chateau—John Jr. had written about this in detail to his family.

In August 1944, the Company made a move influenced by his World War I experience: the Company purchased a country home, a smaller version of a French chateau, on the shores of Lake Minnetonka, west of Minneapolis. Built in 1931, it had been a private home for a prominent Minneapolis man, Rufus Rand, Jr. (a grandson of the founder of the Minneapolis Gas Light Company) "The building was copied from a chateau in France," a Cargill brochure states, "which had attracted Mr. Rand when he was stationed there as a flyer in World War I." Rand, his wife and six daughters had lived in the spacious home until 1941, when the family decided to move out because of personal financial reversals. No one had lived in the building during the first two years or so of the war, and it already was becoming rundown. In the summer of 1944, John Jr. contacted Mrs. Rand about the Rand Company selling the property to Cargill, and in September 1944, a sale was consummated, the title to be held by Cargill Securities Company (the family company).

With the wartime shortages of building materials, the Company had to

leave the property idle until the end of the war. The empty building *was* used to store lifeboats being built by the Minnetonka Boat Works for the armed services . Each carried a full emergency gasoline tank, and some of the then-teenage members of the families owned up many years later to sneaking in and "borrowing" gas to supplement their small "A" ration card allotments. But plans were made almost from the start for converting the building to a corporate headquarters complex, to house about 125 people in total. Only a small group would move out from the downtown Minneapolis location; a large number of additional Cargill employees would remain downtown. John Jr. had returned again to the General Foote notion that if 60 or so key people would surround themselves with secretarial and professional help in a segregated environment, they could accomplish their work more effectively. John Jr. himself always functioned better shielded from large groups, with interchange only with one or a few trusted associates. Whether this also was true of others in senior management was not clear.

The purchase was made public in December 1944, and local journalists were given a tour of the property. Cedric Adams, a respected columnist at the *Minneapolis Sunday Tribune* reported enthusiastically: "I visited the 200-acre Rand estate with its 17-bathroom mansion, its 1,200,000-gallon swimming pool, its 23 fireplaces . . . there is probably no other estate in these parts quite as elegant, quite as elaborate." After taking his readers on a detailed room-by-room tour, he ended: "All in all, it's a daring project, but one that may be the forerunner of a brand new type of office quartering. Personally, I can't imagine how working conditions could be made any more ideal."

Moving corporate headquarters to rural settings was a fresh idea recognized already by the national press. *Business Week*, in its issue of January 6, 1945, had an illustrated article entitled "Moving to Mansions—a Trend" that highlighted the Cargill building and a similar large estate purchased by Reynolds Metals Company, an estate of the late F. W. Woolworth at Glen Cove, New York. The article also mentioned earlier moves by Pennsylvania Salt Manufacturing Company, North American Phillips Company and the Produc-Trol organization. It was "a desire for suburban quiet" and a "novel housing trend." The Cargill Rand property was indeed suburban, quiet and certainly novel for Minneapolis. Whether it would prove to be what John Jr. felt was a more effective management headquarters remained to be answered after the termination of the war.

The editor of *Northwestern Miller*, Robert E. Sterling, commented on Cargill's purchase in a long editorial: "We distinctly approve of it. The consensus of the dinner table was that too much high-priced and high-powered executive ability—when there is any—is frittered away by the attrition of office details." The editorial commented on a Mayo Clinic doctor's speech, in which he had advised executives to slow down, to conserve strength and energy for their greater responsibilities under the pressure of wartime work. "The mortality of executives and other overburdened brain workers, and the incidence of serious degenerative diseases among them, appear to be considerably higher than they are among men who work with their hands. Nervous breakdowns among executives are common because such men not only work too long hours in the office but most of their time outside is taken up with talking shop and making contacts which will be helpful in their business."[37]

Preparing for Postwar

In most companies, Cargill included, there was understandable concern by employees toward the end of World War II about just how their organizations would face the major reconversion problems that would come at the end of hostilities. Under the leadership of Julius Hendel, Cargill began to look at these issues as early as 1943. On December 16, 1943, Hendel asked the senior department heads to meet with him for an evening session at a conference room in Freddy's Cafe in downtown Minneapolis to replicate once more the sessions that he had held all through the 1930s with the college graduate trainees Most of this group were in the room that evening, many of them already quite far along on the management ladder. The subject was "post-war plans."

In his sometimes professorial manner, Hendel first discussed a number of his own views about merchandising, price trends, the farmers' production and the recurrent surplus problem and the outlook for international trade. It was easy to sell during the war, Hendel noted, but he warned that "after the war, those who have not studied are going to be left by the wayside." The wartime grain trade was in "a nervous topsy-turvy state," and it behooved Cargill to be prepared. During the question-and-answer session, the issue of diversification came up frequently and with it the need for research and experimentation (for example, the pros and cons of developing a more complicated soybean-crushing process using the solvent method). It was a wide-ranging evening, one with a sense of excitement about the future and an awareness of the need for positioning Cargill to meet whatever was going to be ahead.

Hendel acknowledged that he himself had pushed the Company into soybean crushing, admitting that "I have probably been a little bit too ambitious. I have done a few things which possibly I should not have done but, like a nagging small boy—if he nags long enough and strong enough, the parents give in! . . . But finally I have nagged out the management . . . and we have those three plants." If Hendel was being properly self-deprecating about his advocacy of feed and soybean crushing, in reality he had

had the backing of John Jr., Cargill MacMillan and Austen Cargill in his efforts to diversify the Company in these directions.

Hendel was anxious to reinstitute the college graduate training program. In the same month of the Freddy's meeting he visited a number of East Coast grain companies and wired John Jr. enroute: "The more I visit houses with foreign connections the more I come to the conclusion that we will need more of our own trained men for postwar trade." The war would have to end first, however, for the pool of talent was still preoccupied with its winning.

In May 1945, Hendel succeeded in bringing an important new group into the Cargill organization. The Company purchased the Honeymead Products Company at Cedar Rapids, Iowa. It included a feed plant with capacity to produce approximately 300 tons of feed per day and a soybean extraction plant designed by Allis-Chalmers Company. The extraction plant originally had a 50-ton-per-day capacity, which had been boosted to 130 tons (4,300 bushels) of beans per day. As Cargill already had a Cedar Rapids feed plant, the new group was renamed the West Side Plant. The Andreas family had held the property, and Dwayne Andreas, a younger member of the family, agreed to join Cargill. John Jr.'s report on his first visit to the Cedar Rapids plant noted: "Andreas is highly intelligent and has much initiative. I don't think we will be able to hold him unless we broaden his responsibilities. Hope we can." Soon Andreas became a vice president of Cargill, the youngest in all of Cargill history.

Dwayne Andreas, c. 1950.

Interestingly, as with the Guntersville purchase, where Cargill bought a terminal but forgot to specify that the seller then not compete with the Company (which he did), Cargill left some loose ends in its negotiations for Honeymead. Julius Hendel, like the rest of the organization not particularly attuned to retail marketing, did not ask the Andreas group to include the copyright of the Honeymead name itself. Dwayne Andreas was quite surprised that he did not. Later, other members of the Andreas family resurrected the name for their new oilseed crushing plant in Mankato, Minnesota.

One of the key questions for the Company in its postwar planning was what would happen to Cargill shipbuilding in general and Port Cargill in particular. In October 1944, John Jr. was interviewed by a Minneapolis paper about Cargill's postwar plans (it was the thirteenth article in a series on Twin Cities industries). Asked about possible civilian uses of Port Cargill, John Jr. replied, "We would like very much to get our shipyard back to build for ourselves. We'll probably be building vessels for our own use at Port Cargill for some years to come."

The article mentioned once again the possibility of Port Cargill as a river terminal for grain "and possibly other products, including iron ore." John Jr. warned that any discussion of this was premature, inasmuch as "political considerations make extremely problematical any talk of development of the river as a terminal." Nevertheless, the Company would probably continue shipbuilding, more likely some form of grain carrier. It was clear that the Company intended to use Port Cargill beyond the end of the government shipbuilding contracts.[38]

APPENDIX

Service Records of Cargill's 18 AOGs

AOG 6 *Agawam* (commissioned December 18, 1943)
Served in Pacific operations during World War II. Main area of operations was in the Philippines. Placed out of commission in reserve at San Diego on January 31, 1957.

AOG 7 *Elkhorn* (commissioned February 14, 1944)
Served as station tanker in May 1944. Active in Pacific Fleet until 1962. Transferred to Taiwan on July 1, 1972, and renamed *Hsin Lung* AOG 517.

AOG 8 *Genesee* (commissioned May 27, 1944)
Served in South Pacific during the war, then delivered gas and oil to Japanese ports until December 1945. Decommissioned December 14, 1949, and recommis-

sioned on July 28, 1950, to serve in Korean War. Also took part in Vietnam. Transferred to Chile and renamed *Beagle* (54).

AOG 9 *Kishwaukee* (commissioned May 27, 1944)
Served in Pacific operations during the war. Decommissioned April 2, 1958. Transferred to Maritime Administration Reserve Fleet (MARAD) until November 1965. Recommissioned on September 1, 1966, and served in Vietnam.

AOG 10 *Nemasket* (commissioned October 20, 1943)
Operated in Pacific Islands until May 1947. Decommissioned into reserve September 22, 1960. Stricken on July 1, 1960, and scrapped in 1961.

AOG 11 *Tombigbee* (commissioned November 18, 1943)
Used to carry fresh water in lieu of gasoline or oil in the Pacific. Placed out of commission December 12, 1949. Recommissioned July 28, 1950, for Korean War. Participated in Operation Deep Freeze in 1963. On July 1, 1973, decommissioned and transferred to Greece (renamed *Atradni* A-414).

AOG 48 *Chehalis* (commissioned December 5, 1944)
Refueling operations in Hawaiian Islands and Canton Island. October 7, 1949, at Tutnila, American Samoa, ship exploded in flames, killing six crewmen, then capsized and sank. Stricken October 27, 1949. Salvaged hulk later sold to government of American Samoa.

AOG 49 *Chestatee* (commissioned December 14, 1944)
Served in Philippines. On July 27, 1945, struck mine in straits south of Balabac Island (5 crew killed and 8 injured). Repaired at Puerto Princesa, Palawan and Samoa, and returned to Philippines in November 1945. Decommissioned on April 8, 1946, and transferred to Maritime Commission on June 30, 1946. Returned to navy and placed in reserve, out of commission, August 1948. Reactivated and assigned to Military Sea Transport Service (MSTS) in March 1952. Operated by civilian crew until May 1954, at which time the vessel was placed back into the reserve fleet. Second tour of service from April 1956 until September 1957, when she was lent to the air force.

AOG 50 *Chewaucan* (commissioned February 19, 1945)
Served around Hawaiian Islands from May 1945 until June 1946 then home-ported in Seattle, serving the Alaskan coast. Converted to combination oiler/tanker at Philadelphia Naval Shipyard in February 1948. Assigned to Sixth Fleet to Commander, Naval Activities, Italy, for operational control. Transferred to Colombia in 1975.

AOG 51 *Maquoketa* (commissioned August 12, 1944)
Served in Pacific and 14 months with occupational forces. Decommissioned on February 21, 1947, and transferred to MARAD on June 18, 1947. Reacquired by the navy in August 1948 and assigned to MSTS in March 1952. Deactivated on May 18, 1954, to reserve and assigned to MARAD on October 9, 1957.

AOG 52 *Mattabesset* (commissioned November, 11, 1944)
Limited Pacific involvement, then served along Atlantic coast for 4 years from June 1947. Also served with Sixth Fleet in the Mediterranean. Decommissioned on October 1, 1968, and transferred to MARAD.

AOG 53 *Namakagon* (commissioned November 4, 1944)
Served in Pacific and then along Alaskan coast out of Seattle. Decommissioned on September 20, 1957. On June 27, 1962, was activated and transferred to Commandant, 12th Naval District, to transfer to New Zealand on October 5, 1962 (renamed HMNZS *Endeavour* A-184). Hull strengthened for polar operations in the Antarctic. Returned to U.S. Navy on June 29, 1971, and transferred to Taiwan on the same date.

AOG 54 *Natchaug* (commissioned July 16, 1945)
Operated in Pacific until February 1948, assigned to SERVRON 3 to support Tsingtao and Yohosuka. Decommissioned July 24, 1959, and transferred to Greece (Renamed *Arethousa* A-377)

AOG 55 *Nespelen* (commissioned April 10, 1945)
Operated in the Atlantic area and with the Sixth Fleet in the Mediterranean until 1955. Participated in Operation Deep Freeze in supplying scientists with stores and fuel in Antarctica

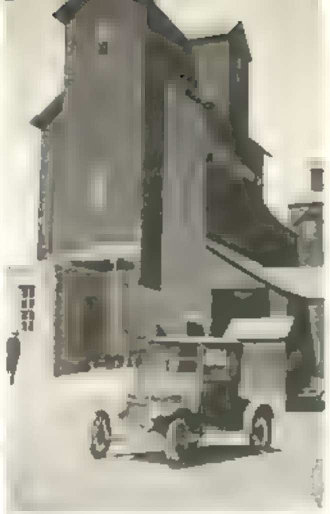
AOG 56 *Noxubee* (commissioned April 3, 1945)
Served in Atlantic, Gulf, and Mediterranean. Decommissioned March 6, 1959 Transferred to MARAD in July 1960 Rejoined navy in 1965

AOG 57 *Pecatonica* (commissioned March 17, 1945)
Assigned to Norfolk, Virginia. Decommissioned on February 7, 1946. Recommissioned April 24, 1948, and served along Eastern Seaboard. Decommissioned April 24, 1961, and transferred same date to Taiwan (renamed *Chang Pei* AOG-307).

AOG 58 *Pinnebog* (commissioned May 12, 1945)
Served 3½ years as gasoline tanker. Placed out of commission May 2, 1949. Reactivated March 1952 and assigned to MSTS with civilian crew until July 1954. Transferred to MARAD on April 20, 1956, and then to MSTS on April 23, 1956, until July 1957. September 1957 transferred to air force.

AOG 59 *Wacissa* (commissioned May 20, 1946)
April 23, 1947, transferred to MARAD and on February 18, 1952, transferred to MSTS Placed out of service on May 25, 1954 May 24, 1956, returned to MSTS and on September 16, 1957, transferred to air force. Turned over to Canadian government until returned to U.S. Navy in 1963. Stricken December 1, 1963, transferred to MARAD, May 1964, and sold for scrap

Source: Captain A. E. Becker, Naval Sea Systems Command, Department of the Navy, to Sen David Durenberger, November 29, 1989, Cargill Archives



Hunter, North Dakota

CHAPTER SIXTEEN

Rocky Reconversion

When the Axis powers surrendered in May and Japan in August 1945, the world entered an uncharted new period of reconversion. With the difficulties immediately after World War I still vividly remembered, there was widespread trepidation. The farmer had fared badly after that earlier Great War, and the grain trade too had faced unexpected difficulties. As World War II began to wind down, there were many predictions of huge food surpluses and sagging prices, like those which had occurred in 1919–1921. James F. Byrnes, the director of the Office of War Mobilization, reported to President Roosevelt in 1944 that, while domestic food consumption would rise, the amazing productivity of agriculture that had marked the period of the war would still produce surpluses. Hopefully, Byrnes continued, exports could take up this slack, "but we must realize there are difficulties." He was concerned about America's high price levels, compared with prices in Europe. The agricultural community, hypersensitive to threats of a price decline, prepared for political battles.[1]

Cargill's rapid growth just before and during World War II had positioned it well for the postwar period. Hugo Scheuermann, the Chase National Bank contact for Cargill, complimented the Company in the spring of 1945 on its strong financial position: "The working capital has been more than doubled since May of 1941—a real accomplishment from which you should derive much satisfaction." John Jr., however, worried about telling too much about this success. When the *Minneapolis Star Journal* reported in December 1945 that Cargill was "the world's largest grain merchant," the Company immediately ran an editorial in *Cargill News*, commenting that, while "Cargill is probably the world's largest warehouseman," there were two other grain merchants still thought to be larger than Cargill, the Bunge organization in Argentina and the Louis Dreyfus group in Paris. Vigorous competition lay ahead with these two and others, such as Continental Grain. A *Cargill News* editorial in August 1945 posed the

question, "Where do we go from here?" Whatever the route, it could be successfully negotiated "only by efficient production, and rigid budget control." Later events confirmed this prognosis.[2]

Honeymead: New Company, New Faces

The functional form of Cargill's organizational structure, long espoused so resolutely by John MacMillan, Jr., continued to show weakness. Burgeoning size and increased complexity of the Company put a premium on coordination among the various functions—and this was not working well. A first step toward another form of organization had been taken in January 1945 with the decision to put Julius Hendel in charge of all merchandising activities of Cargill.

One of Hendel's first concerns was staffing the newly acquired Honeymead operation, the Cedar Rapids soybean meal and oil plant. Active management there had rested in the hands of 27-year-old Dwayne Andreas. At that time he was classified 1-A in the draft (the highest priority for being called), and it was anticipation of this that caused the family to sell the business. Cargill asked his draft board for and received a three-month deferral. At the end of the deferral, with the Pacific war now over, Andreas was permanently released from any further obligation. John Jr. then asked Andreas to join Cargill, promising that he would become an assistant vice president ("this will give you equal rank with Fred Seed").

Because Andreas had been in full charge of all aspects of Honeymead when his family owned it, Cargill's functional setup now complicated matters. Austen Cargill wrote Andreas about this in late November 1945, in the process unwittingly telegraphing the complicated, conflicting nature of the functional system:

> Insofar as the feed and oil business is concerned, we have Fred Seed as the administrative head of that division. We also have a mechanical division . . . which is in charge of the mechanical operation of all our plants. One of the departments of that division is the mechanical operation of the feed and oil plants, over which Dunc Watson is in charge . . . you and Dunc Watson are the two men directly responsible for the administration and operation of the four plants we have in Iowa. While you will work direct with the Manager of each plant, Dunc, through the Manager, has most of his contacts with the Superintendent.

Austen Cargill then made a curious distinction between Andreas and Watson:

> I have, however, stressed the necessity for him always to work through the Manager, so that the Manager is always acquainted with Dunc's activities in regard to the operation of each individual plant . . . while it is not necessary for Dunc to be thoroughly posted as to your administrative activities it is essential that you are thoroughly familiar with his activities, and I am sure you will find that he will co-

operate with you to the limit of his ability. Should cases arise, however, where you do not feel that the mechanical operation is being properly handled, your procedure would be to take the matter up with Fred Seed, who in turn will take it up with me, and between the four of us we will iron out any difficulties of that kind.

This arrangement not only contradicted John Jr.'s original promise, that Andreas would be co-equal with Fred Seed but also pointed up the anomalies of the functional system. Fred Seed worried about what seemed to be dual authority between Andreas and Watson, but Austen Cargill stood fast on the assignments, implying that any change in the functional system "will entirely destroy the basis for managing our entire business." Within nine months, however, major changes in these assignments had to be instituted, pushed along in no small part by another major Cargill acquisition.[3]

Cargill Buys Nutrena

One striking agricultural development in World War II was the much increased interest in the scientific raising of livestock, utilizing nutritionally sound feeds rather than just grass, grain and water. Feed of all kinds was in short supply, and the major manufacturers developed scientifically mixed feeds. Cargill's Blue Square feed operation had not been offering this in its earlier days; now the Company moved to bring improvements in this profitable business. In October 1945, Cargill purchased (for $1.6 million) the entire capital stock of Nutrena Mills, Incorporated. Nutrena was a leading Midwest feed producer with a combined capacity in its three mills (Kansas City, Kansas; Coffeeville, Kansas; and Sioux City, Iowa) of some 23,000 tons per month. A complete line of poultry, dairy and hog feeds had been developed by the 25-year-old company, and specialties such as rabbit food and dog food also were in the product line. For a number of years the Company had owned and operated an experimental farm at Pleasant Hill, Missouri, near Kansas City, where Nutrena's increasingly complex feeds were tested under everyday farm conditions. Nutrena had a total of 430 employees. This company was one of the industry pioneers in its feeds and in its feed sacks, too. Nutrena, along with several leading companies, had begun using special print bags called, enticingly, "pretty prints" which had captured farm housewives' enthusiasm as material for clothing, tablecloths, and the like.

In at least two respects, Nutrena was very different from Cargill. First, Nutrena saw itself as a "retail" operation, directly serving a set of customers—farmers. Advertising and sales promotion were vital to Nutrena's merchandising, and the company had used the media (particularly radio) effectively in reaching its customers. Television was in its infancy, but Nutrena also bought into it at an early point for advertising its dog food. In Kansas City, it contracted for 15 minutes of time for a 13-week span. The program was called "The Monkeys" and featured antics of a group of live monkeys. About seven weeks into the program, a flash fire at the trainer's establishment killed all of the monkeys. Nutrena had to improvise by repeating the old shows on film and quickly received many wrathful calls from viewers, so much so that they had to hire two women to answer the telephones. The account executive, in good P. T. Barnum fashion, reminded the Nutrena executives, "After all, they *are* viewing our program!" Nutrena was a knowledgeable advertiser, its sophistication in that area far beyond that of Cargill's personnel, still wedded to a "futures market" mentality of trading basic commodities.

Second, in reaching these customers, Nutrena had fundamentally decentralized its operations into six sales territories, headed by semiautonomous managers. This, of course, was contradictory to Cargill's conventional wisdom about organization structure. For the moment, Cargill chose to let Nutrena alone, free to run itself as it had in the past from its own corporate headquarters in Kansas City, Kansas.

A persistent dilemma was the presence of some duplication of cus-

A costume party version of "pretty prints" worn by Jack Wilson and his "wife," H. E. (Hank) Schroeder, April 1947.

"Used for regular sales work," Nutrena, 1928

tomers between Cargill's Blue Square and Nutrena. A reasonable solution for all of these potential conflicts eventually had to be found—but what? Many months were needed to accomplish this; later in this chapter the resolution of this problem will be analyzed.[4]

Port Cargill in the Postwar Era

Another dilemma for the Company in its postwar planning was what to do with Cargill shipbuilding in general and Port Cargill in particular. Management seemed enthusiastic about continuing to build boats, probably for grain carrying. Likely these would be inland-waterway barges and towboats, possibly even an oceangoing barge. John Jr. already had been filling his study at his home with drawings for all of these. The Commitment Committee, however, had become uneasy about the heavy capital expenditures needed for governmental shipbuilding. Its profitability was low, and the Company "cannot improve or even maintain the working capital position if its investment in fixed property and plant becomes excessive." Shipbuilding on any scale was likely to be capital-intensive.

If Cargill did not build, another possibility was to buy shipping. Ocean vessels had long intrigued John Jr., and now World War II Liberty ships were becoming available in quantity. Further, Cargill's old *Carlantic/Victoria* (now renamed the *Culpepper*) had completed its wartime work and might be available for purchase. John Jr. was very tempted but finally wrote

Weston Grimes (who was conducting the negotiations): "We are not interested in buying any ocean tonnage until . . . prices have hit bottom. Earlier sales are sure to be high." Here John Jr. exhibited once again his ambivalence about spending money. So often he was intensely opportunity-minded, impatient to be first in any new idea. Yet, as this instance shows, he also had his father's instinct for spending as little as possible, making do or sometimes even forgoing an opportunity because of its initial cost.

There were many other possibilities for Port Cargill. An internal memorandum, undated but written sometime in July 1945, listed possible additions, including special coal-unloading rigs; a trucking center for food, feed and seed deliveries; a feed manufacturing unit; oil, gas, linseed and soybean oil and molasses storage; a fertilizer plant; and even lumber storage and sales. Port Cargill seemed destined for use beyond the life of the wartime contracts.[5]

The "Shepherd of the Hills," Bill Wilhite, accompanied by the Kaw Valley Boys, on the Nutrena radio program, station WIBW, Topeka, Kansas, December 1941.

Southeast, South, Southwest: Towboats and Barges

Cargill's adventure-filled experience in building and delivering the AOGs heightened its consciousness of the power and deceptiveness of the Mississippi. Indeed, it was the delivery of the AOGs down this river that was to leave the most lasting impression from the Port Cargill government shipbuilding episode. By the end of the war, Cargill already was taking steps to involve itself in the inland waterways. The Guntersville, Alabama, and Ottawa, Illinois, terminals each had shown major promise. The barge-truck combination for the Southeast already was significant, and as the Tennessee Valley Authority began its postwar efforts at upgrading its river, this newly developing area became even more attractive.

In January 1945, John Jr. complained to an Army Corps of Engineers officer about the channel in the upper Mississippi and Minnesota rivers. Austen Cargill had made a voyage on company equipment from St. Paul to St. Louis and "he reports to us that in long stretches of the river the controlling depths of the channel posted on the locks are surprisingly below the 9 foot channel authorized by law . . . in some cases, even as low as 6 feet." As to the Minnesota, "we are furthermore severely critical of the tortuosity of the channel . . . in marked contrast to what has been done down on the Tennessee River." The American Beet Sugar Company, which had a plant at Chaska, upriver from Cargill, joined Cargill in applying pressure about the Minnesota River's draft. A conciliatory reply from the Corps of Engineers officer gave John Jr. hope (if not full assurance) that this river was not to be foresaken after the war.

In 1945–1946, Cargill was not strong in the South and Southwest. The Kansas City terminal provided an outpost, but, as Harold Johnson, one of the key executives in the Grain Division, noted in his session on wheat with the Cargill trainees, in May 1946, "when we work through the export department we have to lease space in the Gulf [of Mexico] and work through brokers. We have some very tough competition . . . people like Uhlmann and Continental having elevator facilities . . . operated with their own men. . . . This year we are going to try to get into that territory . . . because we know we are going to have a big export demand."

A necessary first step was to become more involved in Mississippi River barging. For this, John Jr. now initiated Cargill's own fleet. The *Cartasca*, the Company's first Midwest-built towboat, already had been launched and was being outfitted at Port Cargill for its first shakedown trip on the Minnesota and Mississippi rivers. The barges that the *Cartasca* was to push on this trip were two being built by the Company in the summer and fall of 1944 at Chaska. Completing the barges and finishing the towboat took longer than expected, so it was late November 1944, before the units could

The towboat Cartasca.

begin the voyage south from Port Cargill. It was an early winter, and already the Minnesota River and the Upper Mississippi had substantial ice.

The *Cartasca* trial voyage was an unmitigated disaster. As he weighed cost versus function and safety, John Jr. made some fundamental miscalculations about both the towboat and the barges. John Jr. strongly believed that Cargill's Erie Canal towboats and barges should be replicated exactly for the Mississippi River. Cargill had had little experience in navigating the Mississippi, was used to "duck water" like that of the Erie—water with little or no current and therefore favored by duckhunters. The Mississippi was nothing like that—it had strong currents, many eddies, shifting channels and countless other navigational hazards. Cargill had had the *Cartasca* built somewhat underpowered. John Jr.'s choice of power, the Chrysler Sea Mule motor (the unit that Cargill earlier had proposed to build for the government), had been a compromise, but as he wrote Frank Neilson, "we can build three of these for the price of one of the others." There was a further complication with the Sea Mule of that day, as it was a gasoline

engine, located far down in the *Cartasca* hull, a difficult place to service and potentially dangerous because of the gasoline fuel. This also complicated the work of the cooling system. Wrong assumptions had been made about the barges, too. John Jr. wanted to duplicate the inexpensive, single-skin Erie Canal version that had worked so well for him there.

The trial voyage started out badly when the *Cartasca* struck a rock just below St. Paul. Damage was done to the starboard propeller, in the process ruining the reduction gears on three of the other engines. Further down the river, the towboat-barge unit was almost uncontrollable at times, the ice floes pushing the unit all over the river. There were groundings, several serious, that uncovered the weaknesses of the single-skin version. Finally, the Coast Guard vessel *Lantana* had to help the unit through the more difficult spots. A final complication came with a gasoline leak, which made the Coast Guard apprehensive about having the unit tied up for unloading. All in all, the trip was a revealing and particularly embarrassing episode for the Company and for John Jr.

Never one to brood over a failed project, John Jr. immediately dispatched the two barges to the Erie Canal, where they gave good service over a number of years. The *Cartasca* stayed in service (with leased barges) for the 1945 season, then was brought back up to Port Cargill late in the season for substantial alteration to provide a great deal more power (over 900 hp). In the process the engines could be adjusted down from the original 400 rpm to about 200 rpm, much better from the standpoint of wear and tear on the engine units.

One further ignominious episode happened in the first week of December 1945, when the vessel accidentally slipped off its winter drydock, fell back into the Minnesota River and sank in 10 feet of water. Fortunately, little damage was done, and by the time the *Cartasca* was back in service in the latter part of the 1946 season, with three new Cargill-built barges and an upgraded power plant with Detroit diesel engines, the Company had its first viable unit on the Mississippi.

One signal innovation came out of all of this: a bow steering unit. The idea originally had come from Austen Cargill, from a similar adaptation often used by loggers. Loggers often tie a boat crosswise on the front of a log raft and used its outboard motor to move the raft right or left. Cargill's version was equally makeshift—a large-version outboard motor was mounted in the front of the barge, its propeller protected by a grating. Long cables extended back across the barges to the towboat pilot house, and the outboard was moved manually. (In the 1960s the Company developed a radio-controlled version, the "Pathfinder," and later a television camera for visual sighting). John Jr. described the Rube Goldberg device to his mother as "a revolutionary form of steering, having an engine and propeller in the bow, so that one can steer in exactly the same way that the

old log rafts on the Mississippi were steered." He commented in another letter about the new unit's maiden voyage: "It certainly saved us from several collisions." The bow unit gave the pilot much greater control—no more being pushed around by the current as the first *Cartasca* unit had been.

By 1947, the *Cartasca*'s barges included a fore barge unit, an aft barge unit and three center barge units (each of the center barges holding 1,100 tons, the equivalent of about 37,000 bushels of wheat, slightly more if corn). Within two years, the Company had added a second set of three center barge units, giving the *Cartasca* great flexibility. These barges were not the standard size (195 by 35 feet) and did not fit well with other tows. This was particularly true because John Jr. had made the barges box-shaped rather than single or double rakes (sloping fronts for the single, sloping fronts and rears for the double). While he obtained more capacity this way, the unconventional configuration was not popular with other towboat pilots because it was difficult to mix them with conventional barges. Later, Cargill changed over to conventional barges.

The most frequent route was the run from Illinois River points or St. Louis up the Ohio and Tennessee to Guntersville with grain, to return with coal. But the *Cartasca* and its barges soon became known all over the Mississippi River. When the president of the Inland Waterways Corporation announced in early 1948 its own "integrated tow," with nine barges and the towboat *Harry Truman*, John Jr. was asked to come along on its maiden voyage. His schedule would not allow acceptance, but he wrote the president, not hiding his pride, "I would like nothing better than to see my original idea of 12 years ago carried to its ultimate and logical conclusion, as you will be doing."[6]

In spite of the evident need for downstream Mississippi River terminal space, the Company did not increase capacity in this immediate postwar period. Cargill had only the Memphis terminal, which had been built with WPA funds and was not used as much by this time. The total Company terminal capacity in 1942 had been just over 66 million bushels. This rose to almost 73 million in 1945, but the 1949 figure was still at this same point. Major terminal expansion was to be a development of the 1950s.

World Hunger, Once Again

The all-out production in agriculture during World War II had seen gross farm output in the United States jumping from 108 to 123 (1935–1939 output, 100). Corn and wheat production was up substantially. Oilseed totals had risen even higher; the soybean had "arrived," with total production increasing from 78 million bushels in 1941 to 193 million bushels in

1945. All of this had been accomplished with many fewer people on the farms, as farm productivity had increased dramatically. "While it was only clear in historical perspective," Gilbert C. Fite, an agricultural historian, put it, "by the end of World War II, the basis of traditional American agriculture was being drastically altered . . . technology, science and new farm organization patterns were combining to destroy the old production practices . . . developing a new farm built more on the industrial model." The rural transformation that had happened in just the four years of the war "may have been a watershed in American history."

Would this engine of productivity generate a huge postwar glut? The ideal, as one analyst put it, would be that "the last GI potato, the last GI pat of butter and the last GI slice of bread was eaten just as the last shot was fired." The reality was quite the opposite. By the end of the European war (V-E Day, in May 1945), famine had a grip on much of the war-ravaged sections of the Continent. The winter of 1945–1946 was particularly wrenching. President Truman went on national radio on April 20, 1946, to tell the nation that "millions will starve unless we eat less." Fiorello LaGuardia, the mayor of New York City, appealed to the people "desperately." Herbert Hoover, once again enlisted by the government in the food-relief battle, warned, "It is now 11:59 on the clock of starvation."

Huge amounts of American aid were promised. Under the umbrella of the United Nations Relief and Rehabilitation Administration (UNRRA), aid was sent to Eastern Europe and both direct aid and commercial sales went to the liberated countries in Western Europe. In 1947 the Marshall Plan, Secretary of State George C. Marshall's farsighted design (1947), and the European Recovery Program (ERP), also would provide aid.

But there was the unanswered question of whether the United States could produce this aid, particularly agricultural goods, quickly enough. In addition to United States consumers being exhorted to use less meat and wheat, farmers were urged to bring these things to market right away. Yet farmers were not convinced. They already had a store of cash from their substantial wartime production, and with price controls still in effect they were in no hurry to let go of their precious hoard. Price controls, a necessary ingredient of a wartime controlled economy, had succeeded in distorting normal supply–demand equations, as indicated by this farmer reluctance in 1945–1946 to sell.[7]

Cargill, among many others, had great difficulty in obtaining soybeans for its Oil Division plants. As one executive put it, "We are unable to use the price incentive. Our ability to buy beans revolves largely around a matter of personal contacts and good will." Barter arrangements became widespread industry practice. John Peterson, noting in January 1946 that Cargill had set up a trading department for swaps (under the direction of

Walter Gage), described the situation: "Right now, for instance, one car of coal will buy 5 cars of corn. We have also discovered a warehouse full of Nylon stockings in the South and 4 pairs of Nylon, invoiced at the O.P.A. ceiling of course, will enable us to buy one car of corn. However, in order to buy the Nylons we have to trade one car of corn for 6 pair of nylons. Of course this is an infernal mission, but we get full mark-ups on all transactions, so the sum total is profitable enough." This was not, of course, real barter—all sales were made at regular ceiling prices—but the nylons and other swap goods acted as the grease to bring about the trade.

John Jr. abhorred swapping. It led, he believed, to "the general corruption of the public from black markets." He wrote a lengthy public piece on the issue in February 1946, circulating it widely. Calling his essay "Plain Talk," he decried the piecemeal approach, where "everyone seems to be in favor of removing ceilings in his own field of activity but in leaving them on in the other fellow's." Instead he argued for a blanket removal of all ceilings on all grain and soybeans. This would bring a price rise, of course, but John Jr. strongly agreed with Julius Hendel's oft-recounted aphorism, "The cure for high prices is high prices" (in other words, the allure of the higher prices would bring forth supply and decrease consumption, thus, the plenty combined with decreased demand would bring the prices back down).

Despite enormous pressures on them, government price administrators were extremely reluctant to loosen controls. The case of rye was a salient reminder to them. Rye was the only grain among the major food and feed grains not to be price-controlled. By 1945 cash rye prices had shot up like a skyrocket. Prices that had stayed in the range of 55–70 cents during most of the wartime period had ballooned to over $1.50 by June 1945 (and would go much higher later). The volume of trading in rye futures had risen even faster. In the crop year 1941–1942, only 790 million bushels were traded; for the year 1944–1945, some 3,979,000,000 had been traded, including 467 million in April 1945 alone. These changes had led to the raucous disagreement relating to rye that broke out in the public press, discussed in the preceding chapter.[8]

Pressure on the government to loosen controls on grains and soybeans heightened during the early spring of 1946, fueled by continuing farmer unwillingness to sell. John Jr. was in the forefront on this pressure, wiring Ed Grimes in late February: "Please leave no stone unturned to get these price ceilings removed, if not a great increase in the ceiling . . . this is so important that it over-shadows everything else in our picture today." In April the government began offering bonuses of 30 cents to farmers on wheat and corn; even this did not seem to help. Finally, on May 9, 1946, the government partially capitulated, raising the ceiling price on corn by